



June 24, 2010

BY COURIER AND RESS

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON
M4P 1E4

Dear Ms. Walli,

**RE: Whitby Hydro Electric Corporation
Application for Approval of 2010 Electricity Distribution Rates
EB- 2009-0274**

Whitby Hydro Electric Corporation (Whitby Hydro) has reviewed a copy of the confidential transcript for the June 17th, 2010 technical conference. During the technical conference, it was suggested by Board Counsel (per page 3 of the transcript), that parties make submissions on the confidentiality of information contained in the transcript so that a redacted version can be made available for the public record.

While the transcript reviewed does include some references to the confidential documents filed, Whitby Hydro believes that these references were done in a general manner that did not identify any specific confidential information that would be of concern. As a result, it is Whitby Hydro's submission that a redacted version of the transcript is not necessary, and that the current un-redacted version (presently marked as confidential) can be put on the public record.

Should you require any further information or clarification, please contact me.

Respectfully submitted,

Original signed by

Ramona Abi-Rashed
Treasurer

Cc: Neil Mather (email)
All Intervenors (email)



ONTARIO ENERGY BOARD

FILE NO.: EB-2009-0274

VOLUME: Technical Conference

DATE: June 17, 2010

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
Whitby Hydro Electric Corporation for an
order approving just and reasonable rates
and other charges for electricity
distribution to be effective May 1, 2010.

Hearing held at 2300 Yonge Street,
25th Floor, Toronto, Ontario,
on Thursday, June 17th, 2010,
commencing at 9:33 a.m.

TECHNICAL CONFERENCE

A P P E A R A N C E S

LJUBA DJURDJEVIC

Board Counsel

CHRIS HAUSSMANN

Board Staff

NEIL MATHER

ANDREW TAYLOR

Whitby Hydro

SUSAN REFFLE

RAMONA ABI-RASHED

JOHN SANDERSON

JAY SHEPHERD

School Energy Coalition

RANDY AIKEN

Energy Probe Research Foundation

DAVID MacINTOSH

BILL HARPER

Vulnerable Energy Consumers'
Coalition (VECC)

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

<u>Description</u>	<u>Page No.</u>

On commencing at 9:33 a.m.	1
Appearances	1
Preliminary Matters	1
 WHITBY HYDRO ELECTRIC - PANEL 1	 3
S. Reffle, R. Abi-Rashed, J. Sanderson	
Questions by Mr. Aiken	4
Questions by Mr. Harper	11

Recess taken at 10:30 a.m.	29
Upon resuming at 10:33 a.m.	29
Questions by Mr. Shepherd:	29

Luncheon recess taken at 11:50 a.m.	70
On resuming at 12:37 p.m.	70

Recess taken at 2:14 p.m.	120
Upon resuming at 2:18 p.m.	120

Whereupon the conference concluded at 3:05 p.m.	144

E X H I B I T S

<u>Description</u>	<u>Page No.</u>
EXHIBIT NO. KT1.1: VECC'S TECHNICAL CONFERENCE QUESTIONS.	2
EXHIBIT NO. KT1.2: ENERGY PROBE RESEARCH FOUNDATION TECHNICAL CONFERENCE QUESTIONS.	2
EXHIBIT NO. KT1.3: UPDATE TO BOARD STAFF'S SUPPLEMENTAL INTERROGATORIES.	2

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

<u>Description</u>	<u>Page No.</u>
UNDERTAKING NO. JT1.1: TO PROVIDE DEGREE-DAYS DATA USED IN CALCULATION	9
UNDERTAKING NO. JT1.2: TO EXPLAIN HOW THE REDUCTION IN PILS OF \$18,750 RESULTS IN A REDUCTION IN THE REVENUE REQUIREMENT OF \$8,424.	11
UNDERTAKING NO. JT1.3: TO PROVIDE ADJUSTMENT INFORMATION FOR VEHICLES AND TOOLS AND VEHICLE COSTS	19
UNDERTAKING NO. JT1.4: TO PROVIDE SALARY COST ON AN ANNUAL FOR MANAGEMENT, INCLUDING MR. SANDERSON.	50
UNDERTAKING NO. JT1.5: TO PROVIDE DATA ON REVENUE REQUIREMENT FOR 2020 TEST YEAR AND MANAGEMENT RESTRUCTURING.	64
UNDERTAKING NO. JT1.6: TO PROVIDE THE AMOUNT INCLUDED IN THE 2010 RATE BASE.	75
UNDERTAKING NO. JT1.7: TO PROVIDE FULL YEAR FORECAST	94
UNDERTAKING NO. JT1.8: TO PROVIDE UPDATED REVENUE REQUIREMENT WORK FORM INCLUDING COST OF DEBT.	102
UNDERTAKING NO. JT1.9: TO PROVIDE EXPLANATION OF DIFFERENCE BETWEEN AUDITOR COSTS IN SEC IR 29 AND VECC IR 30.	119
UNDERTAKING NO. JT1.10: TO PROVIDE TABLE OF HEADCOUNT AND TOTAL SALARIES AND BENEFITS FOR EACH OF THE FIVE CATEGORIES.	122

1 Thursday, June 17, 2010

2 --- On commencing at 9:33 a.m.

3 MS. DJURDJEVIC: Okay. Should we get started? Good
4 morning, everybody. Welcome to the technical conference in
5 EB number 2009-0274. It's the electricity distribution
6 rate application of Whitby Hydro. My name is Ljuba
7 Djurdjevic. I am counsel for Board Staff. Can we start
8 with appearances?

9 **APPEARANCES:**

10 MR. SHEPHERD: Jay Shepherd, School Energy Coalition.

11 MR. AIKEN: Randy Aiken for Energy Probe. With me is
12 David MacIntosh.

13 MR. HARPER: Bill Harper for the Vulnerable Energy
14 Consumers Coalition.

15 MR. TAYLOR: Andrew Taylor, counsel for Whitby Hydro.

16 MS. REFFLE: Susan Reffle, Whitby Hydro regulatory
17 finance manager.

18 MS. ABI-RASHED: Ramona Abi-Rashed, Whitby Hydro
19 treasurer.

20 MR. SANDERSON: John Sanderson, vice president Whitby
21 Hydro Electric Corporation.

22 **PRELIMINARY MATTERS:**

23 MS. DJURDJEVIC: On behalf of Board Staff, we have
24 Neil Mather and...

25 So, first of all, there are some supplementary IR --
26 no, what we just received it yesterday -- technical
27 conference questions, okay. So these I would like to make
28 exhibits, if everybody is all right with that.

1 We have VECC's technical conference questions. I will
2 make that Exhibit KT1.1.

3 **EXHIBIT NO. KT1.1: VECC'S TECHNICAL CONFERENCE**
4 **QUESTIONS.**

5 MS. DJURDJEVIC: Energy Probe Research Foundation
6 technical conference questions, KT1.2.

7 **EXHIBIT NO. KT1.2: ENERGY PROBE RESEARCH FOUNDATION**
8 **TECHNICAL CONFERENCE QUESTIONS.**

9 MS. DJURDJEVIC: And Board Staff -- no. What are
10 these? An update to Board Staff's supplemental
11 interrogatories, and we will make that KT1.3.

12 **EXHIBIT NO. KT1.3: UPDATE TO BOARD STAFF'S**
13 **SUPPLEMENTAL INTERROGATORIES.**

14 MS. DJURDJEVIC: Are there any other documents that we
15 are going to be referring to that we should be -- or we can
16 make them exhibits as we go along.

17 In terms of preliminary matters, I understand there
18 are a number of confidential documents. We received from
19 SEC and VECC a listing of confidential documents. Would
20 the parties like to make those exhibits as well?

21 MR. SHEPHERD: You didn't receive from me any listing
22 of confidential documents.

23 MR. HARPER: I think those were listings produced by
24 the company indicating which documents were considered
25 confidential or not confidential in response to our IRs.

26 MS. ABI-RASHED: That's correct.

27 MR. SHEPHERD: SEC has in fact objected to the
28 confidentiality of some of them.

1 MS. DJURDJEVIC: So because there is a dispute as to
2 what should be confidential and what should be on the
3 record, I think there has been some discussion as to how to
4 proceed today. And I think the suggestion I think that was
5 agreed to was that the -- we would produce -- everything
6 would be transcribed. That transcript would be
7 "confidential".

8 Afterwards, we can have submissions by parties as to
9 which parts should be redacted. I understand there will be
10 some objection, so the Panel can rule on that, I guess.
11 Then the redacted transcript for the public record would be
12 produced. Is that all right with everybody?

13 MR. SHEPHERD: I just wanted to say that because this
14 is on the record, I don't think that was agreed to. I
15 think that that was -- we were advised by Board Staff that
16 would be the Board Panel's preference.

17 We are fine with that, but I don't want it to be seen
18 to be coming from us.

19 MS. DJURDJEVIC: Okay. Right.

20 Okay, so if there are any other preliminary matters
21 anybody wants to speak to or... No. Then I guess we can
22 start with the questions. Who would like to go first?

23 MR. AIKEN: That would be me.

24 MS. DJURDJEVIC: All right. Mr. Aiken, all yours.

25 **WHITBY HYDRO ELECTRIC - PANEL 1**

26 SUSAN REFFLE

27 RAMONA ABI-RASHED

28 JOHN SANDERSON

1 **QUESTIONS BY MR. AIKEN:**

2 MR. AIKEN: I am going to be fairly brief, I think,
3 because Whitby has already prepared written responses to my
4 questions, so I have some follow-up on those responses, as
5 well as on some of the VECC responses that we received
6 yesterday, as well.

7 The first question actually had to do with VECC
8 technical conference number 1, so that is in Exhibit KT1.1.
9 So it is VECC question 1, technical conference part (b).
10 This has to do with the normalization, and I am trying to
11 match some of the numbers with other numbers.

12 Now, am I correct that the response to part (b) is
13 based on the updated employment forecast that resulted in
14 the 883.9 million kilowatt-hour forecast that was provided
15 in the response to Energy Probe No. 25? That is referred
16 to in part (a) of the VECC question. I want to make sure I
17 am comparing apples with apples and not different
18 forecasts.

19 MS. REFFLE: Yes. We received this information from
20 our consultant fairly late last night, as well, so I would
21 suggest that we would need to confirm that with him.
22 That's my expectation is that is correct, but we would want
23 to confirm that.

24 MR. AIKEN: Okay. Let me take you through my
25 calculations, and then my question, and you can have Mr.
26 Motluck get back to you.

27 My understanding is that the forecast, based on the
28 updated employment numbers, would be 883.9 million

1 kilowatt-hours. That's the number in part (a) that is
2 referenced there, and then what the response in part (b)
3 shows for 2009 predicted kilowatt-hours is using the same
4 equation, the same input assumptions, including the updated
5 employment numbers, but using actual heating and cooling
6 degree days rather than the forecasted heating and cooling
7 degree days.

8 Based on that response, that gives 862.3 million
9 kilowatt-hours as the predicted number using actual weather
10 information. Everything else, the same as in the 883.9
11 number.

12 So the difference between those numbers is
13 21.6 million kilowatt-hours.

14 Now, in the response to VECC No. 22, Interrogatory No.
15 22, first round, VECC asked to calculate the impact of the
16 weather by taking the difference between actual degree days
17 and forecast degree days and multiplying it by the
18 coefficients from the equation for both heating and cooling
19 degree days.

20 The response there gives a number of 19.9 million
21 kilowatt-hours, being the impact of the weather, the
22 difference between actual and normal. So my question is:
23 What is the difference between that 19.9 million and the
24 21.6 million that we are now being told is the impact of
25 weather?

26 I would have assumed that those numbers would have
27 been the same. So that is my first question.

28 The second question I have deals also with

1 normalization, and I want to use 2008 as the actual here.
2 Again, in the response to VECC 1, technical conference, you
3 can see that the actual 2008 kilowatt-hours is 897,673 and
4 change. The predicted number is 900,858,274 and the
5 normalized -- the weather normal number we are provided is
6 on page 201 of the evidence in table 5. That is a figure
7 of 911,096,927.

8 So my first question is: When I look at the actual
9 versus the predicted, is the predicted number -- the
10 900 million, is that based on actual degree days in 2008?
11 I am assuming it is, but I would like to have that
12 confirmed.

13 Then the second part of the question, the normalized
14 number, the 911, it is not clear to me how that number has
15 been calculated. And I guess my first suggestion is: Is
16 that number the predicted number with the degree days
17 changed to the forecasted degree days or the normal degree
18 days?

19 In other words, it is not really normalized actual.
20 It is a normalized prediction. It is a prediction of what
21 the kilowatt-hours would have been if the normal degree
22 days had been used. So I would like to have that confirmed
23 as well.

24 MS. ABI-RASHED: So, Randy, we can just summarize your
25 two questions if that is possible, so that we can --

26 MR. AIKEN: Yes, you can try.

27 MS. ABI-RASHED: The last question is with respect to
28 the original evidence?

1 MR. AIKEN: Yes.

2 MS. ABI-RASHED: Page 201, and it is with respect to
3 2008?

4 MR. AIKEN: Yes. I am using 2008 as an example, so I
5 can try to understand what's been done.

6 MS. ABI-RASHED: Okay.

7 MR. AIKEN: Okay?

8 MR. TAYLOR: What might be the most helpful is -- we
9 are going to need assistance from Stephen Motluck. So he
10 is not available this morning but he will be available this
11 afternoon.

12 So what I would recommend is if the transcript, or at
13 least this part of the transcript, even in draft form is
14 ready at some point this morning, what we could do is e-
15 mail that to Stephen so he can see your questions. I don't
16 think he is going to come down this afternoon, but what we
17 could do is set up a call, and then what we can do is read
18 on to the record whatever information you need that comes
19 from that call.

20 MR. AIKEN: Yes, that would be fine.

21 MR. SHEPHERD: Hang on a second. Sorry. You are
22 proposing to have the evidence of a witness not on the
23 record?

24 MR. TAYLOR: No. I'm not. I am suggesting it be read
25 on the record. It would just be communicated by our
26 clients onto the record.

27 MR. SHEPHERD: Sorry. If this person is going to be a
28 witness, if you are going to get information from them, I

1 want to see them here so we can ask them questions.

2 Your witnesses are here. If they can't answer, they
3 can undertake. That's fine.

4 MR. TAYLOR: Well, then that's fine. We will
5 undertake to give them to you and Stephen Motluck will work
6 on the undertakings, to write them up, and then I guess
7 that will delay -- I am trying to be practical here and get
8 the information on the record.

9 So go ahead. Ask all the questions you want, and we
10 will give them all to Stephen for him to answer.

11 MR. AIKEN: So can we have undertakings, then, for
12 those two sets of questions?

13 MS. ABI-RASHED: Given that, can I clarify the first
14 question again? I just want to be able to --

15 MR. AIKEN: Sure.

16 MS. ABI-RASHED: That is to do with the most recent
17 responses to VECC, and it is with respect to the predicted
18 value for 2009?

19 MR. AIKEN: 2009, yes.

20 MS. ABI-RASHED: Right. Okay.

21 MR. AIKEN: Okay?

22 MS. ABI-RASHED: The questions are actual degree-days;
23 is that correct?

24 MR. AIKEN: Sorry, say that again.

25 MS. ABI-RASHED: You want to know what actual degree-
26 days were being used in the calculation?

27 MS. REFFLE: Then that's the only other change that
28 has taken place, other than what has been provided in

1 part (a), assumptions from part (a)?

2 MR. AIKEN: That's right. And the question really is:
3 Why is the difference, when you change only the actual --
4 or, sorry, the heating and cooling degree-days from
5 forecast actual, the difference is now 21.6 million
6 kilowatt-hours. And when you take the same difference in
7 cooling and heating degree-days in VECC No. 22, times the
8 coefficients in that same equation, you get 19.9 million
9 kilowatt-hours. Why is there a difference?

10 MS. ABI-RASHED: Okay.

11 MS. DJURDJEVIC: Can we give that an undertaking
12 number? JT1.1.

13 **UNDERTAKING NO. JT1.1: TO PROVIDE DEGREE-DAYS DATA**
14 **USED IN CALCULATION**

15 MS. DJURDJEVIC: Is the question and the undertaking
16 sufficiently clear for the applicants?

17 MS. ABI-RASHED: I believe so, yes.

18 MS. DJURDJEVIC: Okay.

19 MR. AIKEN: Moving to a different area, loss factors,
20 this is on page 396 of your evidence, Table 8-13. I don't
21 think you need to pull it up.

22 The question is: Why are you using a three-year
23 average?

24 MS. ABI-RASHED: If you could just give me a minute?

25 If I could refer you to page 394, there is a
26 discussion with respect to the supply loss factor and why a
27 three-year average was used.

28 And it states on line 13:

1 "The three-year period has been chosen as it
2 represents a more accurate reflection of the
3 supply loss situation going forward. The supply
4 losses during the period 2006 to 2008 shifted
5 compared to earlier years due to the following:
6 One, the impact of the station toll meter and IT
7 deregistration and replacement with individual
8 feeder meters and new ITs in 2005; changes in
9 supply loss factors for embedded meters during
10 2005 from 0 percent to either .6 or 3.0 percent
11 depending on the feeder; additional feeder
12 capacity on the ISO connections and the resulting
13 changes to the load balancing between ISO and
14 HONI delivery points."

15 MR. AIKEN: So basically you are saying that 2005 and
16 prior isn't really relevant on a going-forward basis?

17 MS. ABI-RASHED: The structure has changed with
18 respect to the configuration of the losses.

19 MR. AIKEN: Okay. Then my last question is on the
20 update to Board Staff No. 35, KT1.3. I am looking at the
21 control log, part 1, for the individual changes.

22 MS. ABI-RASHED: Yes.

23 MR. AIKEN: In the second-last box at the bottom, the
24 PILs impact.

25 MS. ABI-RASHED: Yes.

26 MR. AIKEN: My question is: How does a reduction in
27 PILs of \$18,750 result in a reduction in the revenue
28 requirement of only 8,424? Isn't the 8,424 actually the

1 amount that you have to gross-up the \$18,750 to show the
2 impact on the total revenue requirement?

3 MS. ABI-RASHED: Randy, I will have a look into that.
4 I understand your question.

5 MR. AIKEN: Yeah.

6 MS. ABI-RASHED: I will get back to you on that.

7 MR. AIKEN: Just to give you an idea of what I am
8 looking for, I think the actual reduction in the revenue
9 requirement is somewhere in the neighbourhood of 27,000,
10 which is the 18,750 plus this number. Okay?

11 MS. ABI-RASHED: Yes, I will have a look at that.

12 MR. AIKEN: Those are my questions.

13 MS. DJURDJEVIC: Now, sorry, that will be an
14 undertaking, JT1.2.

15 **UNDERTAKING NO. JT1.2: TO EXPLAIN HOW THE REDUCTION**
16 **IN PILS OF \$18,750 RESULTS IN A REDUCTION IN THE**
17 **REVENUE REQUIREMENT OF \$8,424.**

18 MS. DJURDJEVIC: Okay. Will we move on to the next
19 questioner?

20 MR. HARPER: That would be myself.

21 MS. DJURDJEVIC: All right.

22 **QUESTIONS BY MR. HARPER:**

23 MR. HARPER: Actually, before we get to the VECC
24 technical conference questions, there was just one minor
25 follow-up I wanted to do on one of the issues Mr. Aiken had
26 raised; that was going back to his question on losses, and
27 specifically the -- I think he referred you to page 396 of
28 the main application and was asking about the fact you used

1 a three-year average for calculating the loss factors.

2 I was just curious, because the three years that were
3 shown there have about a 5.3 percent loss factor in 2006,
4 about a 5 percent loss factor in 2007, and a 3.3 percent
5 loss factor in 2008.

6 I was wondering whether, from your understanding of
7 the operation of the system, there was any -- any reason as
8 to why the 2008 value was significantly lower than the
9 previous two years. Is that another structural change that
10 is going on? Or maybe if you could just describe a little
11 bit more what took place in that particular year.

12 MS. ABI-RASHED: Certainly. If I could bring you to
13 page 396 and address with respect to structural changes,
14 you would see the structural changes under the supply loss
15 factor. And if you note here, it's on line H that it
16 averages about 1.008.

17 If you look to line G, loss factor in distribution
18 system, that is where the variability is. And in 2008,
19 there was a correction through unbilled that we were
20 required to make. So 2008 was not a typical year and
21 that's why we averaged it. So the 2008 was a
22 reconciliation of previous years, and really what we looked
23 at is the average, which is more typical of where we are.

24 MR. HARPER: That's fine. That's what I was looking
25 for was some understanding as to why it was different. So
26 that is fine, thanks.

27 If we turn to the KT1.1, which was the VECC technical
28 conference questions, you have filed responses to those,

1 and I think with Mr. Aiken's questions we have dealt with
2 number 1, which has to do with the load forecast.

3 Number 2 dealt with other revenues specifically from
4 FIT connections. I guess the only follow-up I had - the
5 answers here were satisfactory - was: Would you agree that
6 -- we have asked here about the number of connections you
7 might expect through to the end of 2010. Is it fair to say
8 that after we go beyond 2010, the number of MicroFIT
9 connections you are likely to have is fairly uncertain? To
10 some extent, it may be anybody's guess as to how many you
11 are going to be getting beyond that point in time?

12 MR. SANDERSON: I would agree with that statement.

13 MR. HARPER: Okay. If we turn to number 3, which was
14 dealing with the capital expenditures, part (a) was asking
15 about the reference to the average capital spending of
16 6.5 million and your comment that you were trying to manage
17 to that level. And the question asked for an explanation
18 between the 6.5 million, which you have explained here is
19 really net capital spending less capital contributions.

20 And I guess I was curious as to why you deem that as
21 being the appropriate number to use for purposes of
22 managing. I would have thought your gross capital spending
23 is actually what you have to deploy resources in order to
24 undertake to, regardless of how it is actually being paid
25 for, and it's the gross capital spending you have to manage
26 your resources to.

27 So I was just wondering why you thought the net
28 capital spending level was a more appropriate level to try

1 and average out as opposed to gross.

2 MR. SANDERSON: When we answered the question to the
3 original interrogatory, I was looking at the issue of the
4 average spending, because that's the impact, the real
5 impact, on rates. And I think that is where I thought you
6 were headed with the original question.

7 It is true that the deployment is really with respect
8 to gross numbers, but what we find is that on certain
9 projects there is a lot of outsourcing, in terms of
10 bringing in additional resources to complete projects.

11 Specifically, the major road relocation works where
12 quite often the projects are required to be constructed
13 well after the travel portion of the right of way and we
14 have to have -- we have companies that have specific off-
15 road vehicles to do that type of work. Plus the -- with
16 respect to gross, we have a subdivision activity which
17 really doesn't deploy a lot of internal resources to manage
18 that expenditure, because it is all done outside external
19 resources, as well.

20 So that is kind of why I focussed in on the net
21 spending.

22 MR. HARPER: Okay, fine. Thanks.

23 I am just curious. In question number 4, we are
24 asking for just a better understanding of what types of
25 equipment Whitby Hydro, the distribution utility, owned
26 versus Whitby Hydro, the electric services company, owned.
27 You indicated I think, in response, that the transport and
28 work equipment were owned by the services corporation.

1 The depreciation charges associated with that, is that
2 included in the -- if I look at this, the various charges
3 that are coming over, there is a line item for vehicles.
4 There is a cost for vehicles. Is there a depreciation
5 charge for the vehicles included in that particular line
6 item?

7 MS. ABI-RASHED: In answer to your question, the
8 amount that is -- you are referring to does include an
9 amount for depreciation. And I think we have -- I could
10 refer you to the response where we have identified -- and
11 the depreciation is with the transport equipment and those
12 accounts that were identified in part (b) of the response.

13 MR. HARPER: Okay. I just wanted to be sure I
14 understood where it was being covered off. Question 5 was
15 fine from my perspective.

16 When we turn to question 6, I guess, which is dealing
17 with the affiliate charges -- and I must admit I may have
18 to go a bit slower here, because I just got this first
19 thing this morning and I am trying to assimilate my
20 thoughts here.

21 The question (a) was dealing with the portion of the
22 charges that really you have identified as being where fair
23 market value determination is not feasible or exempt.

24 I think my understanding was is the only place where
25 sort of -- one place where the transfer pricing report that
26 was undertaken in 2006 made an allowance for a mark-up was
27 with respect to the control room and meter operations and
28 the supervision activity that was sort of -- didn't have to

1 be undertaken by the utility.

2 And there was a mark-up of roughly \$80,000 recognized
3 for that, if I am not mistaken.

4 MS. ABI-RASHED: Hmm-hmm.

5 MR. HARPER: What I was curious about was, in response
6 to part (b), you indicated that as well as the markup for
7 the \$80,000, there were other costs. There were additional
8 mark-ups over and above that, which I guess was accounting
9 for the difference between, say, 80,000 and \$368,000, which
10 is the total mark-up.

11 I was wondering where in the transfer pricing report
12 there was any provision for additional mark-ups in areas
13 where basically they were exempt from any competitor
14 pricing, because there wasn't any, where there was any
15 provision made in the transfer pricing report that sort of
16 recognized there were mark-ups in those particular areas.

17 MS. ABI-RASHED: I understand the question.

18 MR. HARPER: I think if it helps, the transfer pricing
19 report was provided as an attachment to School Energy
20 Coalition Interrogatory No. 3.

21 MS. ABI-RASHED: Just give us a moment. If I could
22 direct you to page 234 of the evidence?

23 MR. HARPER: 234?

24 MS. ABI-RASHED: Yes, if the original application.

25 MR. HARPER: Yes, I've got that now.

26 MS. ABI-RASHED: Okay. If you look at line 9 to line
27 20, it describes the process.

28 MR. HARPER: Right. I guess what I was struggling

1 with is this discussion here makes specific reference to
2 the compliance officer's ARC review, which basically --
3 that's what was contained in the -- that material
4 supporting that was what was requested in the School Energy
5 Coalition No. 3 and was provided in terms of the
6 correspondence that came back from Mr. Hughson and the
7 attached transfer pricing report. So I assume what is
8 written here is trying to synopsise to some extent what is
9 in the attachment to School Energy Coalition No. 3?

10 MS. ABI-RASHED: That's correct.

11 MR. HARPER: In looking at School Energy Coalition
12 No. 3 where it dealt with the various categories of costs
13 and which categories of costs, from the compliance
14 officer's perspective, there could be an adjustment to and
15 which categories there would not be an adjustment to, I
16 understood the adjustment for the control room and meter
17 operations. There is specific reference to that in the
18 transfer pricing, report, which was the 80-odd-thousand
19 dollars. What I could not find in the transfer pricing
20 report was any provision for any further adjustments over
21 and above that which would account for the full \$368,000
22 you have included in the application.

23 MS. ABI-RASHED: I understand your question. In the
24 transfer pricing report, the cost categories are identified
25 on page 4. There is direct, internal costs exempt,
26 internal costs, and then he identifies there are four or
27 five classes.

28 The very first class is direct costs. Those ones,

1 there are no mark-ups for those.

2 After that, all of these other ones are addressed
3 specifically, and where there is no market, the
4 understanding was that there would be the weighted cost of
5 capital applied to that.

6 MR. HARPER: Is that documented in the report
7 anywhere?

8 MS. ABI-RASHED: Through the discussions with the
9 compliance officer, that was the process that was
10 understood.

11 I understand it is not that clear here. What we could
12 do is an undertaking to see if we can find some other
13 documentation that would support that or make it clearer
14 for you.

15 MR. HARPER: Fine, because I can see there are
16 specific places like in the outsourced work activity, there
17 is specific reference to a mark-up in the same for the
18 control room and the same for -- and so, yes, if you could
19 undertake to do that, to substantiate that.

20 MS. ABI-RASHED: Yes.

21 MR. HARPER: Now, maybe I was going to come at it a
22 little bit later on, but while we are on this topic and you
23 are sort of looking for it, I had the same difficulty with
24 the mark-ups that were being -- if we go to -- I am jumping
25 around a bit, but it is probably easier to put this all in
26 one place and do it as one undertaking as opposed to three.

27 If we go to VECC 57(b) and (h), I think one deals
28 with OM&A and the other deals with capital?

1 MS. ABI-RASHED: Mm-hmm?

2 MR. HARPER: 57(b) deals with OM&A, and there is an
3 adjustment there under "vehicles and tools" of 25,000 for
4 vehicles and tools. Again, I could find no documentation
5 in the transfer pricing report that would provide for such
6 an adjustment.

7 Similarly on the capital side, which is dealt with in
8 57(h), there is a similar -- there is a further adjustment
9 to the costs of vehicles for which I could find no
10 justification in the transfer pricing report.

11 So maybe if you could address all three of those in
12 one place, that would --

13 MS. ABI-RASHED: That's fine.

14 MS. DJURDJEVIC: That will be Undertaking JT1.3.

15 **UNDERTAKING NO. JT1.3: TO PROVIDE ADJUSTMENT**
16 **INFORMATION FOR VEHICLES AND TOOLS AND VEHICLE COSTS**

17 MR. TAYLOR: Just so we are clear, what do you want
18 to call the undertaking? Undertake to find further
19 documentation to justify the mark-ups associated with --
20 and do we want to say VECC Interrogatory -- you said 57(b)?

21 MR. HARPER: 57(b) deals with OM&A and 57(h) deals
22 with capital, yes.

23 MR. TAYLOR: Okay.

24 MR. TAYLOR: Then as well you wanted the categories
25 other than the control room? That would be categories two
26 and three?

27 MR. HARPER: Well, I think in 57(b) you will find it
28 includes the entire adjustment of the 368 million, of which

1 I was trying to -- I could understand a portion of that
2 going to the control room, but that was something in the
3 order of 80- or 90,000. So it was the remaining \$280,000 I
4 was trying to understand where the support came from the --
5 you know, you are relying on the Board's compliance officer
6 report and the transfer pricing report, where the support
7 came for those adjustments within the context of that
8 report.

9 MS. ABI-RASHED: Yes.

10 MR. HARPER: I will wait until you finish your notes
11 there, so we're...

12 MS. ABI-RASHED: Thank you. Okay.

13 MR. HARPER: Thank you.

14 In question 7, basically -- and actually this is
15 actually discussed in the transfer pricing report that was
16 attached to the School Energy Coalition No. 3 document.
17 That was the fact that the understanding was that the way
18 the services companies approach the pricing work, there was
19 the cost of providing the services, and then that was
20 marked up for overheads, and in this particular case, for
21 2010 you are using 110 percent mark-up for overheads. Then
22 that cost, resulting cost, was compared with market prices
23 for 2009 study -- those are obtained by Mr. Mackenzie and
24 his firm -- to determine the extent to which your costs
25 were comparable to market pricing. That's my
26 understanding.

27 Number 7 here, I had asked you to outline what was
28 included in the 110 percent, and you have indicated that

1 the 110 percent is made up of roughly 70 percent of
2 employee-related overheads, things like pensions and
3 benefits and things like that, 30 percent related to
4 administrative costs, and 10 percent related to return.
5 You go on to say that the administrative overheads are for
6 things like space, IT, HR, admin, et cetera.

7 What my question is is that -- you have already
8 elsewhere in the charges -- and that's in category --
9 basically category number 1, which was exempt from fair
10 market pricing -- included costs for admin, IT, regulatory,
11 human resources. You are already charging there.

12 So why is it reasonable to include those costs again
13 in the overheads that you are using to charge out to
14 determine the basis for your costs for charging the
15 corporation? It looks to me like you are double-charging
16 on those particular items.

17 MS. ABI-RASHED: Okay. What we are trying to
18 accomplish here is to have full cost comparisons with the
19 outside competitive pricing.

20 So in order to do that, we had to build up all of
21 those costs so that we can be sure that we are doing a fair
22 comparison.

23 As a result, we had to identify those. Though it is
24 true those other costs flow through to the service
25 agreement, for this specific analysis it is more of we are
26 testing to see how well we do competitively, and if we had
27 our men out there with the full costs, how we would do.

28 So that is why we are coming to that number, and

1 making it so that it can be more comparable.

2 MR. HARPER: But then in establishing what you
3 actually charge the -- what the energy services company
4 actually charges the distributor, they use that full cost
5 and mark it up again for your adjustment, to try to match
6 it with what is a competitive cost. That is actually what
7 you charged -- that is actually what you charged the
8 distributor. So the energy services company is actually
9 charging the distributor through that portion of its
10 charges a fully burdened rate, which includes HR, IT,
11 accounting, et cetera.

12 It is also charging the distributor company
13 separately over in another place for human resources.

14 So if you were to take that approach, it seems to me
15 you would have to approach both HR and accounting costs
16 elsewhere; otherwise, again, you are double charging the
17 distributor.

18 MS. ABI-RASHED: Yes. I understand your question.
19 When we do the pricing through the services agreement,
20 those aren't the overheads that we charge on the hourly
21 rates, because costs flow through, as you said, IT through
22 other mechanisms.

23 So the costs that would be charged would be direct
24 payroll-related type of costs.

25 MR. HARPER: But if we go to 57 -- if you go, again,
26 to VECC 57(b)? To make sure I understand this, if we go to
27 VECC 57(b) and I look at the response there and the line
28 item where it says "fair market value testing feasible", if

1 that is the one I understand, that's the one where I
2 understand this cost here, the cost line is the cost which
3 includes the hourly rate plus the 110 mark-up?

4 MS. ABI-RASHED: No, no, it is not. It would be just
5 their hourly rate, plus the associated direct payroll
6 burdens and the actual 10 percent mark-up, none of the
7 other general administrative things.

8 MR. HARPER: Okay. So this cost here isn't determined
9 using the same -- this is where I was trying to avoid
10 referring to the confidential portion of the response, but
11 the response had a wage rate, and then it had a WHES cost
12 column. And the WHES column was the one that included the
13 110 percent mark-up.

14 These numbers are based just on the WHES wage rate and
15 not the cost column?

16 MS. ABI-RASHED: Sorry, could you ask that question
17 again?

18 MR. HARPER: In terms of the way the mechanics works
19 when you are doing your fair market comparison, I
20 understand you start off with the wage rate that WHES
21 charges. You then mark that up by 110 percent to come up
22 with a cost in that comparison. Then you actually mark it
23 up again to come up to a price that you view as being
24 equivalent to fair market pricing, and that second mark-up
25 is effectively the final 10 percent adjustment?

26 MS. ABI-RASHED: For the purposes of the comparison,
27 we were doing full -- because it is on an hourly rate, you
28 need to build up all of those costs, and that is why we

1 used the 110 percent. But when you look at the analysis
2 where we break out the components, where you see the actual
3 cost for those items, that would not be the 110 percent.

4 MR. HARPER: Okay, fine.

5 MS. ABI-RASHED: It is just a different exercise for
6 the comparison. We didn't want to underestimate the true
7 costs when we compared to the outside markets. So, you
8 know, we are doing full costing. But when we charge the --
9 through the service agreement, it is not done at the 110,
10 because there are, as you say, other items that are covered
11 off through general administrative expenses that come
12 through other mechanisms.

13 So there isn't this -- this is not 110 and another
14 10 percent, if that is what you are concerned about.

15 MR. HARPER: It is just the base cost plus the
16 10 percent?

17 MS. ABI-RASHED: Yes, that's correct.

18 MR. HARPER: Fine, thank you.

19 MS. ABI-RASHED: The base cost plus associated direct
20 payroll overheads.

21 MR. HARPER: So basically if I can maybe go back to
22 your response to six -- excuse me -- 7(a) it is more likely
23 to be the base cost plus that 70 percent employee-related
24 cost?

25 MS. ABI-RASHED: That's correct.

26 MR. HARPER: It would exclude the 30 percent for admin
27 and exclude the 10 percent for return, because I had a
28 similar question. That 10 percent for return is

1 effectively the mark-up --

2 MS. ABI-RASHED: That's right.

3 MR. HARPER: -- the adjustment you make at the end?

4 MS. ABI-RASHED: That's right.

5 MR. HARPER: Okay, thanks.

6 That 10 percent, I think in question 8 I was asking
7 you sort of what the characterization was of that
8 10 percent, because -- and, you know, maybe it was the
9 chief compliance officer that started this language to
10 begin with, but it is referred to as a rate of return. It
11 is referred to as a return on equity sort of thing.

12 But you don't really -- and I guess the 10 percent,
13 really all that is, it is not calculated out as a rate of
14 return on any capital. As I understand it, it is really
15 just the difference between what your fully-loaded cost is
16 and what you view as being the average benchmark market
17 price.

18 That percent, it could have worked out to be
19 5 percent, it could have worked out to be 20 percent, but
20 whatever that difference is, that is what you would have
21 used in as the adjustment and just called it rate of
22 return; is that a fair comment?

23 MS. ABI-RASHED: Could you ask that again?

24 MR. HARPER: I think 10 percent sounds so much like
25 what might be a reasonable rate -- somebody might expect to
26 be a reasonable rate of return, if they were, say, in a
27 competitive business.

28 But, really, you aren't using that. You haven't

1 picked that 10 percent by the fact it is calculated in any
2 way as being a return value. It is calculated strictly on
3 the difference between what is your -- as you said in sort
4 of the background material you filed to VECC 57, the
5 difference between what your fully-loaded cost and the
6 benchmark market prices out there.

7 If you look at the difference between those two, the
8 difference you calculated to be 10 percent, and that is the
9 basis on which you then make the adjustment?

10 MS. ABI-RASHED: Just give me a moment. I hope I
11 answer your question. I am still not completely sure I
12 understand it, so I want to be clear.

13 For the testing of those hourly rates, the weighted --
14 we use a weighted cost of capital as a proxy for market.
15 So that is where the 10 percent comes from, and that stems
16 from the original compliance plan that was outlined in
17 2006.

18 That weighted cost of capital or equity -- back then
19 it was equity. I think those terms seem to have been
20 interchanged over the years. With the rest of the
21 compliance plan, that same concept of that pricing
22 mechanism is applied to the other segments of the costs.

23 So that is where you would get the pricing assigned to
24 the fair market value not feasible, which we have to get an
25 undertaking to provide you that.

26 So, as well, that would be applied to the vehicle,
27 tools. So have I answered your question?

28 MR. HARPER: Well, what I have been struggling with,

1 and the answer sort of is the one I was hoping not to get,
2 actually, because what I am struggling with is, like,
3 typically a rate of return is applied to a rate base or
4 capital that is employed, which in this case, if I
5 understand from the earlier responses, is really just the
6 vehicles, tools and miscellaneous equipment.

7 What you are doing is you are applying that 10 percent
8 to the entire cost, which is primarily made up of labour
9 costs.

10 MS. ABI-RASHED: Hmm-hmm.

11 MR. HARPER: So I was having a bit of a difficulty in
12 sort of saying this is a return, when you appear to be
13 applying it to a number that would be far bigger that could
14 ever be characterized as the rate base for the energy
15 services company, basically given that rate base is made up
16 of nothing other than vehicles and tools, and most of the
17 cost is a labour cost.

18 MS. ABI-RASHED: I understand.

19 MS. REFFLE: Just to clarify, I think we made comments
20 in our application, as well as some of the interrogatories,
21 we did sort of revisit that with the chief compliance
22 officer in 2008 and sort of revetted the process and the
23 methodology that we had used to test the pricing. And that
24 was still considered to be compliant, and we continued to
25 take that type of approach.

26 The 10 percent is also used to -- I mean, if you
27 remember when you looked at the market price testing, we
28 were significantly under the market prices. So when you

1 look at it in totality, as well, like, when you use a
2 10 percent as a proxy, you have to remember that there is a
3 whole basket of goods in there.

4 So, you know, we used that in some cases based on what
5 we went through with the chief compliance officer, but when
6 you look at it in totality, it also ensures that we are
7 within a market level or market price testing, kind of -- I
8 am not sure if I am explaining it too well, but...

9 MR. HARPER: Well, because actually it was the second
10 answer that I was more expecting to hear, was that the
11 10 percent was really an adjustment that brought you up
12 close to, but still perhaps a little bit less than what was
13 from -- the calculations that had been done by either --
14 the independent evaluator considered to be a benchmark for
15 market price.

16 It was really just an adjustment as opposed to any
17 technical, you know, rate-of-return-type calculation. I
18 think you have effectively confirmed that.

19 Is that a fair...

20 MS. REFFLE: I think that is correct. Sorry, I think
21 we are struggling with the interpretation here of each
22 other's comments, but I believe that is correct, yes.

23 MR. HARPER: Okay, fine. Thanks. I think the balance
24 of the technical conference questions that I had here are
25 sort of -- the responses you provided in writing are
26 satisfactory, and I don't have any further questions on
27 them. So that is the end of my questions.

28 Thank you very much.

1 MS. ABI-RASHED: Excuse me. May I be excused?

2 MR. TAYLOR: Why don't we take a break?

3 MS. DJURDJEVIC: Why don't we take ten minutes?

4 MR. MATHER: Ten minutes.

5 --- Recess taken at 10:30 a.m.

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

7 MR. MATHER: We are missing only David. And Ljuba has
8 excused herself. So I guess we can resume.

9 **QUESTIONS BY MR. SHEPHERD:**

10 MR. SHEPHERD: Thank you.

11 Witnesses, let start with SEC No. 2 of the
12 supplementary answers.

13 What we asked you to do was identify the legal
14 employer of the four senior personnel. And I am not sure I
15 know, after this, who is. So let me approach this a
16 different way.

17 Ms. Abi-Rashed, you are listed here, and you are
18 listed as treasurer of Whitby Hydro Electric Corporation,
19 but you are only an officer of the utility, right? You are
20 not an employee?

21 MS. ABI-RASHED: As an officer, you are an employee.

22 MR. SHEPHERD: No, that's not correct. So you are an
23 officer only, you don't have an employment contract with
24 the utility, and you don't receive a paycheque from the
25 utility; correct?

26 MS. ABI-RASHED: That's correct.

27 MR. SHEPHERD: Okay. The same is true of Mr. Lavelle?

28 MS. ABI-RASHED: That's correct.

1 MR. SHEPHERD: And the same is true of Ms. Watt?

2 MS. ABI-RASHED: That's correct.

3 MR. SHEPHERD: Now, Mr. Sanderson, you are listed as
4 vice-president of the utility. And so I was a little
5 confused here as to who your employer is, because you also
6 work for the services company, right?

7 MR. SANDERSON: I am employed by the services company,
8 but I am dedicated 100 percent to wires company business.

9 MR. SHEPHERD: So then the services company actually
10 has no employees, right? Sorry, the utility, rather, has
11 no employees?

12 MS. ABI-RASHED: Can we -- and I understand the
13 confusion with respect to this question, the questions that
14 you are asking with respect to who are the legal employers.
15 And it is correct; it's Whitby Hydro Energy Services
16 Corporation. But from the point of view of practicality
17 and what actually occurs, the three officers, as John
18 Sanderson, work for Whitby Hydro Electric Corporation. The
19 payroll function is performed or resides with Whitby Hydro
20 Energy Services Company. The three officers have a
21 fiduciary responsibility to run the Whitby Hydro Electric
22 Corporation, and John Sanderson as vice-president has that
23 same obligation.

24 MR. SHEPHERD: I understand a fair bit about
25 fiduciaries, Ms. Abi-Rashed, but you also have a fiduciary
26 responsibility to the services company, right?

27 MS. ABI-RASHED: That's correct.

28 MR. SHEPHERD: And all of you do? That is your

1 employer, that is where you get your paycheque; true?

2 MS. ABI-RASHED: That's correct.

3 MR. SHEPHERD: Okay. So my question is: Who here do
4 we have as a witness who is representing just the utility?
5 Anybody?

6 MS. ABI-RASHED: Three of us represent the utility.

7 MR. SHEPHERD: Well, but you also represent the
8 services company, right?

9 MS. ABI-RASHED: That's correct.

10 MR. SHEPHERD: So I want to know, do we have anybody
11 whose only interest is the utility?

12 MS. ABI-RASHED: Three of us represent the utility,
13 and our interest is the utility. With respect to this
14 organizational structure, through our compliance review
15 back in 2006, this was acceptable.

16 MR. SHEPHERD: Okay. I just want to state I don't
17 frankly care what the chief compliance officer said,
18 because as he said in his letter to you, it is not binding
19 on the Board. And so unless a Board Member or panel that
20 has a power to make a decision has made a decision about
21 your structure, I am going to ask questions about it.

22 I like Mr. Hughson a lot, but I don't care what he
23 said in this case. All right?

24 So I understand that is your explanation but I am
25 still going to ask the questions.

26 So if we don't have anybody here who is only -- only
27 works for the utility, I would like to know who instructs
28 counsel in this case.

1 MS. ABI-RASHED: The panel.

2 MR. SHEPHERD: The panel?

3 MS. ABI-RASHED: Myself as treasurer of Whitby Hydro
4 Electric Corporation.

5 MR. SHEPHERD: All right. I understand.

6 Let me turn to -- you have just been discussing with
7 Mr. Harper VECC 57(d), so let me ask you some questions
8 about that, because I frankly am still a little bit
9 confused. So let's go through it and see if I can figure
10 it out.

11 I am looking at attachment 1 to 57(d); this is the
12 chart comparing the various hourly rates. Do you have
13 that? It looks like that. [Indicating]

14 MS. ABI-RASHED: Okay. Thank you.

15 MR. MATHER: It's about the third from the last page
16 in the package that was sent, saying "VECC Supplementary
17 Interrogatories."

18 I think -- is it third from last page, Jay?

19 MR. SHEPHERD: Third from last page.

20 MR. SANDERSON: Here you go.

21 MS. ABI-RASHED: Thank you.

22 MR. SHEPHERD: Do you have that now?

23 MS. ABI-RASHED: What was the number again, Jay?

24 MR. SHEPHERD: It is VECC 57(d), attachment 1. It is
25 the third to last page in the package that you provided
26 saying "VECC Supplementary Interrogatories listing of
27 confidential documents."

28 MS. ABI-RASHED: Okay. I believe I have it.

1 MR. SHEPHERD: Okay. So I am not going to ask you any
2 questions about the two competitors or the -- I guess, in
3 the one case, three competitors, or the average. I am
4 starting with this column "Whitby Wage Rate."

5 Tell me whether I understand this correctly. That
6 wage rate that you have there is the wage that Services
7 pays to an employee in the particular category on an hourly
8 basis on average for that category; is that right?

9 MS. ABI-RASHED: That's correct.

10 MR. SHEPHERD: Okay. And that's what you actually pay
11 on an hourly rate. It is not a constructed number in any
12 way. It is an actual hourly rate?

13 MS. ABI-RASHED: That's correct.

14 MR. SHEPHERD: Okay. Is there anything included in
15 that besides hourly pay? For example, are there any
16 benefits or vacation pay or anything like that included in
17 that?

18 MS. ABI-RASHED: No.

19 MR. SHEPHERD: That is the raw number? That number is
20 taken from your union contract?

21 MS. ABI-RASHED: That's correct.

22 MR. SHEPHERD: Okay. Then you have another number
23 here, which is "Whitby Transfer Pricing Rate." Now, that's
24 what Services charges to the utility, right?

25 MS. ABI-RASHED: Just give me a second.

26 I believe that we were -- we just discussed that with
27 Bill, with respect to what that number was and how it was
28 built up.

1 MR. SHEPHERD: No, I heard that discussion. I am
2 asking you the question: Is that what you charge -- the
3 transfer price from Services to utility, or not?

4 MS. ABI-RASHED: What we charge from Services to
5 utility is the actual rate, plus payroll, direct payroll
6 costs, and the 10 percent.

7 In this analysis it is full costing, so it includes
8 other general administrative burdens.

9 MR. SHEPHERD: So then we don't know what hourly rate
10 you actually charge for these people, do we? That's not in
11 evidence anywhere.

12 MS. ABI-RASHED: The specific rates?

13 MR. SHEPHERD: Yes. If Utility gets a labourer from
14 Services, we know what you are paying the labourer, what
15 Services is paying the labourer, but we don't know what the
16 utility is paying the labourer, do we? That's not in the
17 evidence anywhere.

18 MS. ABI-RASHED: In answer to your question, we have
19 not provided it in the evidence.

20 MR. SHEPHERD: But there is a rate, right?

21 MS. ABI-RASHED: The hourly rates?

22 MR. SHEPHERD: Yes.

23 MS. ABI-RASHED: Yes.

24 MR. SHEPHERD: Okay. So can you undertake to provide
25 -- to tell us what they are, what are the hourly rates that
26 Services charges to the utility for each category? Can you
27 do that?

28 MS. ABI-RASHED: I am not quite sure what you are

1 looking for.

2 MR. SHEPHERD: Well, you have provided this evidence
3 that says that what you are charging the utility is less
4 than the market; right? Your transfer price is less than
5 the market. But now you are telling us that the thing you
6 call a transfer price here isn't actually what you are
7 charging the utility.

8 So how do we know that what you are charging the
9 utility is less than or equal to fair market value? How
10 did the chief compliance officer know, when you talked to
11 him, if this isn't the transfer price?

12 MS. ABI-RASHED: Could I get back to you on that? I
13 just want to think about your question.

14 MR. SHEPHERD: Okay.

15 Then let me move on to another aspect of this. I
16 don't think you are offering an undertaking. I think you
17 are going to -- we are going to get back to it in this
18 cross; right?

19 MS. ABI-RASHED: That's correct.

20 MR. SHEPHERD: If you can't answer it, then we will
21 talk about undertakings at the time.

22 MS. ABI-RASHED: Hmm-hmm.

23 MR. SHEPHERD: Still looking at this chart -- and I
24 know this is not all your employees; right? These
25 categories don't constitute all of the employees of
26 Services, do they?

27 MS. ABI-RASHED: No.

28 MR. SHEPHERD: No, of course. But I am just looking

1 at these as an example.

2 You would have available to you, I guess - maybe not
3 here, but in your records, surely - the number of hours
4 that Services charged to Utility in 2009 for each of these
5 categories; right?

6 MS. ABI-RASHED: Yes.

7 MR. SHEPHERD: Okay. And you would also have the
8 overhead amounts that you charged or the -- let me split it
9 up -- the directly applicable HR-type overhead amounts that
10 you charged for each of these people.

11 So, for example, you are able to calculate -- given
12 the number of hours for, let's say, a sub-foreman, you are
13 able to calculate how much pension, how much benefits, et
14 cetera, was charged on top of that for that category;
15 right?

16 MS. ABI-RASHED: That's correct.

17 MR. SHEPHERD: You are also able to calculate the
18 administrative expenses applicable to that category; right?

19 MS. ABI-RASHED: Yes.

20 MR. SHEPHERD: Okay. So what I would like you to do
21 is I would like you to give me an undertaking to provide
22 for 2009 -- I understand you can't do it for 2010 because
23 it is still forecast -- for 2009, the number of hours
24 charged for each of these categories from Services to the
25 utility, the amount of wage rate charged in that component,
26 the amount of each category of overheads added on to it,
27 and the total charged for each category, so that we can
28 then see, are you ending up charging more or less than this

1 transfer pricing rate. Can you do that?

2 MS. ABI-RASHED: If possible, if I could also think
3 about that one, as well, Jay?

4 MR. SHEPHERD: Okay. I am also going to ask you for
5 the same thing with respect to substations. We will come
6 back to that.

7 Let me ask you, then, about the total billings from
8 Services to the utility. Am I right that you are expecting
9 in the test year that Services will bill the utility a
10 total of around \$15 million, about 9 million of OM&A and
11 about 6 million of capital, in that ballpark?

12 MS. ABI-RASHED: That's correct.

13 MR. SHEPHERD: All right. And so of that, about
14 a million or so is this profit component that you build in,
15 what you call the return?

16 MS. ABI-RASHED: Could you take me through your
17 one million, please -- or, sorry, what number did you say?
18 Can you take me through that?

19 MR. SHEPHERD: One million.

20 MS. ABI-RASHED: One million did you say?

21 MR. SHEPHERD: Yes.

22 MS. ABI-RASHED: Could you please take me through
23 that?

24 MR. SHEPHERD: It is your number. You are the ones
25 who charged the return. I am asking what the number is.
26 On 15 million, I am guessing some of it is directly
27 allocated so there is no return on it, and the rest isn't.
28 The return is 10 percent. So I am assuming somewhere in

1 there you got \$1 million.

2 If it is not \$1 million, tell me what the number is.

3 MS. ABI-RASHED: If you look under VECC 57(b) and (h),
4 the information is provided by different categories.

5 MR. SHEPHERD: Okay, just a second. You're saying
6 57(b).

7 So there is \$655,000 in (b), and where is the other
8 place you said there is some?

9 MS. ABI-RASHED: (h).

10 MR. SHEPHERD: (h). And there is \$741,000 there; is
11 that right?

12 So the profit, then, is 741 plus 655, which is
13 1,396,000. Am I right?

14 MS. ABI-RASHED: That's not correct.

15 MR. SHEPHERD: Okay. So I don't understand, then.

16 MS. ABI-RASHED: The procurement model is set to
17 recover the costs of a purchasing department, so that is
18 not part of return.

19 The fair market testing feasible is to simulate market
20 prices, so that is not return.

21 MR. SHEPHERD: Sorry. There is a profit; right?
22 There is a profit built in there?

23 MS. ABI-RASHED: Yes, there is.

24 MR. SHEPHERD: Okay. How much is the profit built in?

25 MS. ABI-RASHED: 10 percent.

26 MR. SHEPHERD: So it is \$159,000. So it doesn't
27 matter whether it is fair market value; there is a profit
28 that the Utility is giving to the Services, right?

1 MS. ABI-RASHED: Mm-hmm.

2 MR. SHEPHERD: Okay. And that total profit is
3 \$1,396,000, right?

4 MS. ABI-RASHED: No, it's not.

5 MR. SHEPHERD: Okay. I am going to ask you to
6 undertake to tell us what the total profit is that Services
7 makes on Utility in the test year, out of the work that is
8 done for Utility in the test year, and a breakdown of how
9 it is calculated.

10 MS. ABI-RASHED: Could you please clarify that?
11 Rephrase the question, please.

12 MR. SHEPHERD: You have admitted already there is an
13 amount in the bills that the Services renders to Utility.
14 There is an amount that represents what is sometimes called
15 return and sometimes called profit. It doesn't matter. It
16 is a profit.

17 And so I would like to know what the total of that is
18 expected in the test year. You know roughly what -- well,
19 you know from this rate application what Services is going
20 to bill the utility, and that includes a profit amount. I
21 want to know what the profit amount is. It appears to be
22 \$1,396,000 from your evidence.

23 MS. ABI-RASHED: If those are the ones identified in
24 (b) and (h), that is correct.

25 MR. SHEPHERD: So it is a million-396?

26 MS. ABI-RASHED: That's correct.

27 MR. SHEPHERD: Thank you.

28 Now -- and by the way, you have referred me to those

1 two references. So let me just, if I can find it again --
2 where did it go?

3 Sorry. Under the Services agreement, it is expected
4 that there will be current costs of 7,955,000 in the test
5 year, right? I am taking that from VECC 55.

6 MS. ABI-RASHED: What page are you on?

7 MR. SHEPHERD: VECC 55, at the end of the application
8 -- at the end of the answer. It says "Total Service
9 Agreement OM&A Rate Application"?

10 MS. ABI-RASHED: Yes, I see it. Thank you.

11 MR. SHEPHERD: 7,955,000. So that is how much you are
12 charging, right?

13 MS. ABI-RASHED: That's correct.

14 MR. SHEPHERD: Okay. Now, then a couple of pages on
15 you have total service agreement costs for 2010:
16 8,587,000. So help me with that.

17 MS. ABI-RASHED: Okay. The 8,587,000 represents all
18 services provided under the service agreement. It includes
19 things like smart meters, CDM, as well as adjustments that
20 were not in the rate application.

21 So if you look on page 5 of the -- actually, question
22 55, part (a), there is a reconciliation that brings you
23 from --

24 MR. SHEPHERD: Oh, I see that. All right.

25 So then you have -- on page 6 you have 7,955,000.
26 That is actually the correct number, then, of the amount in
27 the rate application, that it relates to OM&A that's being
28 paid to Services, right?

1 MS. ABI-RASHED: That's correct.

2 MR. SHEPHERD: Okay. Then on the next page you have
3 another number, 8,346,000 and that is the capital
4 component. It is the equivalent, but for capital, right?

5 MS. ABI-RASHED: That's correct.

6 MR. SHEPHERD: So if you add the two of them together,
7 you get \$16,301,000, which is the amount that you expect
8 the Utility to pay to Services in the test year, in total?

9 MS. ABI-RASHED: That's correct.

10 MR. SHEPHERD: For regulated activities, obviously not
11 including CDM or anything else that's --

12 MS. ABI-RASHED: For items under the rate application.

13 MR. SHEPHERD: Okay. So then, now, Services total
14 revenues from all sources, would they be greater than
15 20 million? Do you know what they are, expected in the
16 test year?

17 You have a budget, right? What is your forecast total
18 revenues of Services from all sources in the test year?

19 MS. ABI-RASHED: I believe, if you could help me here,
20 that this question has been asked in previous
21 interrogatories.

22 MR. SHEPHERD: Yes, and you didn't answer it. I am
23 asking it now, and I am asking it because I have now laid
24 the groundwork.

25 MS. ABI-RASHED: Well, I will refer you to the
26 response, if I may.

27 Do you recall the number of the interrogatory?

28 MR. SHEPHERD: I don't. If you want to refuse, just

1 refuse.

2 MS. ABI-RASHED: I will refuse respectfully.

3 MR. SHEPHERD: Okay. So is it greater than
4 \$20 million? Do you know whether it is greater than
5 20 million?

6 Don't tell me the number. That's fine. Is it
7 greater than 20 million?

8 MS. ABI-RASHED: I will refuse.

9 MR. SHEPHERD: So you are not going to tell us
10 anything about how much of the Services business is being -
11 - is for the Utility?

12 MS. ABI-RASHED: That's correct.

13 MR. SHEPHERD: All right. Let me turn to -- here it
14 is -- SEC No. 3.

15 We asked you for the invoice or invoices or charges
16 actually made by Services to the Utility in 2009.

17 What you said was that you do a monthly accounting and
18 then I guess you do a true-up at the end of the year; is
19 that right?

20 MS. ABI-RASHED: I just want to find the
21 interrogatory, if you could hold on a second.

22 MR. SHEPHERD: Supplementary No. 3.

23 MS. ABI-RASHED: Okay.

24 MR. SHEPHERD: All of my references are to
25 supplementaries, unless I say otherwise.

26 MS. ABI-RASHED: Okay.

27 MR. SANDERSON: Thank you.

28 MS. ABI-RASHED: Our answer still stands.

1 MR. SHEPHERD: Sorry, I didn't ask you a question yet.

2 MS. ABI-RASHED: Oh. Anticipation.

3 MR. SHEPHERD: So is it correct that there is a
4 monthly accounting and a true-up at the end of the year?

5 MS. ABI-RASHED: That's correct.

6 MR. SHEPHERD: Okay. What you said here is that,
7 well, because you have three or fewer employees in a
8 category -- now, what category is that that you have three
9 or fewer employees?

10 MS. ABI-RASHED: It would be the officer category, as
11 well as the vice-president category.

12 MR. SHEPHERD: So I am taking a look and I am seeing
13 you have four executive officers - one, two, three, four -
14 so how is that three or fewer?

15 MS. ABI-RASHED: Mr. Sanderson is not executive.

16 MR. SHEPHERD: Okay. So he is management?

17 Mr. Sanderson, do you have responsibilities at
18 Services? You do, right?

19 MR. SANDERSON: No.

20 MR. SHEPHERD: How do you interact with the
21 management, the Services management team, Ms. Abi-Rashed
22 and Mr. Lavelle and Ms. Watt? Do you report to them?

23 MR. SANDERSON: I report to Mr. Lavelle.

24 MR. SHEPHERD: So --

25 MR. SANDERSON: In his position as president of the
26 Whitby Hydro Electric Corp.

27 MR. SHEPHERD: Understood.

28 So when there are executive management meetings at

1 Whitby Hydro -- you have them; right, Ms. Abi-Rashed? You
2 have executive management meetings?

3 MS. ABI-RASHED: Yes.

4 MR. SHEPHERD: Okay. And, Mr. Sanderson, do you
5 attend those meetings?

6 MR. SANDERSON: Well, I wouldn't call them executive
7 management meetings. They're management meetings, and a
8 number of employees attend the meetings.

9 MR. SHEPHERD: So not just the three executives?

10 MR. SANDERSON: That's correct.

11 MR. SHEPHERD: So there are other people in the
12 management category other than you?

13 MR. SANDERSON: They're in ServeCo.

14 MR. SHEPHERD: Sure, but there are other people in
15 that category?

16 MS. ABI-RASHED: I would like to direct you to the
17 compliance report from 2006 where it states that moving one
18 staff into the newly-created asset management position
19 satisfies the compliance requirements. And so this has
20 been met through the compliance audit.

21 MR. SHEPHERD: That is irrelevant. The compliance
22 officer, as he has already pointed out to you, has no power
23 to make any decisions.

24 MS. ABI-RASHED: This individual, if I may add -- if
25 you bear with me, that this individual report directly to
26 the president of Whitby Hydro Electric Corporation and will
27 not be shared with any affiliate, we are complying with
28 that.

1 MR. SHEPHERD: But it is true that, Mr. Sanderson, you
2 are part of the management team; right? You are not part
3 of the executive team, but you are part of the management
4 team?

5 MR. SANDERSON: I attend management meetings to ensure
6 that the Whitby Hydro, the electric corporation, is looked
7 after. That is my sole responsibility.

8 MR. SHEPHERD: Sorry, that is your sole
9 responsibility?

10 MR. SANDERSON: Yes. All of my time, 100 percent of
11 my time, is dedicated to the wires company.

12 MR. SHEPHERD: Okay. So tell me what you do.

13 MR. SANDERSON: I manage the -- basically manage the
14 assets of the corporation.

15 MR. SHEPHERD: Do you have anybody reporting to you?

16 MR. SANDERSON: No.

17 MR. SHEPHERD: And what is your decision-making power
18 with respect to the utility?

19 MR. SANDERSON: Decision-making power in terms of the
20 capital budget process, what projects will move ahead.

21 MR. SHEPHERD: Okay. Let me just stop you. You don't
22 decide the capital budget; right?

23 MR. SANDERSON: I suppose not. Excuse us.

24 [Witness panel confers]

25 MR. SANDERSON: Excuse me, Jay, could you ask the
26 question again, please?

27 MR. SHEPHERD: Sure. You don't decide the capital
28 budget; right?

1 MR. SANDERSON: Not completely, no.

2 MR. SHEPHERD: No. In fact, the management team
3 considers it, and then it goes to the board of directors,
4 who ultimately approve it?

5 MR. SANDERSON: That's correct.

6 MR. SHEPHERD: But you don't even decide what goes to
7 the board of directors, do you?

8 MR. SANDERSON: Yes.

9 MR. SHEPHERD: Well, I thought the management team did
10 that.

11 MR. SANDERSON: In conjunction with the management
12 team and working with Jim Lavelle, the president of the
13 wires corporation, as a group we decide what goes to the
14 Board for approval.

15 MR. SHEPHERD: I wonder if you could turn to SEC
16 number 21, which is the -- is in the supplementaries. What
17 I am looking at is on page 11.

18 We are asking about the interaction between Services
19 and WiresCo. It says here, "The bimonthly meeting of the
20 Asset Management and Planning Committee". So you are on
21 that committee; right?

22 MR. SANDERSON: That's correct.

23 MR. SHEPHERD: Who else is on that committee?

24 MR. SANDERSON: We have certain members from
25 engineering and operations.

26 MR. SHEPHERD: So this is not an executive committee?

27 MR. SANDERSON: No. It is a working committee.

28 MR. SHEPHERD: So these are all people at the

1 management level or below?

2 MR. SANDERSON: Or below, yes.

3 MR. SHEPHERD: Okay. Is there anybody on the
4 executive on this committee?

5 MR. SANDERSON: No.

6 MR. SHEPHERD: So this committee, then, interacts with
7 respect to -- now, you don't chair that committee?

8 MR. SANDERSON: Yes.

9 MR. SHEPHERD: You do chair that committee, okay.

10 MR. SANDERSON: Yes.

11 MR. SHEPHERD: That's good.

12 Does that committee have the power to make decisions?

13 MR. SANDERSON: No. The committee will make
14 recommendations back to the president of the corporation as
15 we sit as a group.

16 MR. SHEPHERD: All right. So then there is another
17 meeting with the president. Presumably you then report --
18 as chair, you report to the president --

19 MR. SANDERSON: Yes.

20 MR. SHEPHERD: -- This is what we talked about, this
21 is what we want to do; right?

22 MR. SANDERSON: Yes.

23 MR. SHEPHERD: Is that true?

24 MR. SANDERSON: Yes.

25 MR. SHEPHERD: And that committee keeps minutes;
26 right?

27 MR. SANDERSON: Yes, we do.

28 MR. SHEPHERD: Okay. So I wonder if I could then ask

1 you to undertake to provide us with the minutes of the last
2 three bimonthly meetings of that committee.

3 MR. TAYLOR: It would be helpful to understand why you
4 need that information.

5 MR. SHEPHERD: Well, because I think that will
6 demonstrate to the Board either that Mr. Sanderson really
7 is operating in a supervisory capacity and that the utility
8 does actually have somebody working there or that it
9 doesn't, and this is a line committee that doesn't have any
10 decision making power. We will see that from the minutes.
11 Those minutes will tell us, I think.

12 Part of the issue here is we have a person -- the
13 utility doesn't actually have any employees, but the one
14 employee of ServeCo that is supposed to be acting only for
15 the utility has nobody reporting to him and has no real
16 power. And so we are entitled to explore who is
17 representing the utility.

18 MR. TAYLOR: Well, I am not sure I agree with you, Mr.
19 Shepherd.

20 You know, the budgets that they have put forward are
21 the budgets that they're seeking approval from, and, as far
22 as the genesis of those budgets, I don't personally believe
23 that the Board needs that information in order to make a
24 determination. Whether or not it comes from -- whether or
25 not Mr. Sanderson's involvement was as a leader or a
26 follower, the budgets are the budgets. So I don't think
27 you need that information.

28 MR. SHEPHERD: Okay. So it is your call. Refuse or

1 not.

2 MR. TAYLOR: We will refuse.

3 MR. SHEPHERD: Thank you.

4 So let me come back to SEC No. 3, which is what I was
5 asking you about before. You could provide the information
6 requested, I assume, if you lumped Mr. Sanderson in -- no
7 offence, Mr. Sanderson -- if you lumped Mr. Sanderson in
8 with the three executive personnel; right?

9 MR. TAYLOR: Mr. Shepherd, could you repeat the
10 question? If you were to lump then in, so we had four
11 employees in one category -- what is it you looking for?

12 MR. SHEPHERD: The objection here is we can't answer
13 the question, because there are three or fewer employees in
14 the category.

15 MR. TAYLOR: Which question, though, is what I am
16 asking?

17 MR. SHEPHERD: Please provide the document or
18 documents blah, blah, blah. Please provide the invoices.
19 So you said you do a monthly accounting, Supplementary
20 No. 3. You do a monthly accounting, but you can't tell us
21 the details, because that would disclose three or fewer
22 salaries. Fine. Lump Mr. Sanderson in with them. Now you
23 have four. Now can you provide it?

24 MS. ABI-RASHED: What we can undertake to provide is
25 the annual...

26 [Witness panel confers]

27 MS. ABI-RASHED: What I want to -- could you just give
28 me a moment, please?

1 That's fine. We will provide it on an annual basis.

2 MR. SHEPHERD: Sure, that's fine.

3 MS. ABI-RASHED: Yes. Thank you.

4 MR. MATHER: That is JT1.4, then.

5 **UNDERTAKING NO. JT1.4: TO PROVIDE SALARY COST ON AN**
6 **ANNUAL FOR MANAGEMENT, INCLUDING MR. SANDERSON.**

7 MR. SHEPHERD: Thank you.

8 Now, I wonder if you could turn to SEC No. 13. And
9 what we are trying to figure out is whether this structure
10 results in just and reasonable rates.

11 So we have asked you to provide the analysis and
12 discussions that took place at the time you set up this
13 structure, to determine what the options are you looked at
14 and why you chose this one.

15 I take it those documents are lost?

16 MS. ABI-RASHED: You are talking about question 13; is
17 that correct?

18 MR. SHEPHERD: Yes.

19 MS. ABI-RASHED: I would bring you back to our
20 response to 13.

21 MR. SHEPHERD: Sorry, I asked you a question. Are the
22 documents lost or not?

23 MR. TAYLOR: I think they have answered in their
24 response that they are unable to locate the documents.

25 MR. SHEPHERD: So does that mean they are lost or they
26 didn't look?

27 MR. TAYLOR: Did you look?

28 MS. ABI-RASHED: Yes.

1 MR. SHEPHERD: So you had a consultant do a study on
2 the business structure. You don't have the consultant's
3 report anymore?

4 MS. ABI-RASHED: I would have to say the answer
5 stands.

6 MR. SHEPHERD: Sorry, I am asking a legitimate
7 question. You say you had a consultant's report. Does
8 that report exist? Do you have it?

9 MR. TAYLOR: And again, I think they have already
10 responded. They haven't been able to locate the document.

11 MR. SHEPHERD: Well, no. They say they aren't able to
12 locate the documents requested. I am asking a
13 straightforward question. There is a consultant's report.
14 Is it gone, or is it around?

15 MR. TAYLOR: they have been unable to locate the
16 document. It might be around, but they can't find it. It
17 could be in a box in storage somewhere.

18 I don't know how much more we can give you.

19 MR. SHEPHERD: I would like the witness to tell me
20 that, that they cannot find the consultant's report.

21 MS. ABI-RASHED: As I referred to the response, it
22 stands. We are unable to locate it.

23 MR. SHEPHERD: Okay. So it might be in a box in
24 storage somewhere? But you don't know where it is?

25 MS. ABI-RASHED: As I stated, unable to locate it.

26 MR. SHEPHERD: So then how do you know that this
27 report was about the benefits of sharing limited resources
28 and about making sure you had the ability to engage in

1 entrepreneurial businesses, if you don't have the report?

2 MR. TAYLOR: How did you know then, or how do we know
3 now?

4 MR. SHEPHERD: How do you know now? You answered the
5 questions describing the report, but you have never seen
6 it?

7 MR. TAYLOR: So I guess you are calling into question
8 the entire structure of the business?

9 MR. SHEPHERD: Yes.

10 MR. TAYLOR: Well, we are not prepared to engage in a
11 discussion on the structure of the business in this
12 proceeding.

13 MR. SHEPHERD: Well, you see, I think that unless a
14 Board Panel has decided that this structure is okay, it is
15 in issue.

16 MR. TAYLOR: Well, we disagree with that, because we
17 have been before the Board on numerous occasions with this
18 structure in place. We have also been with the before the
19 chief compliance officer with this structure in place.

20 As well, there are a number of virtual utilities out
21 there who use the exact same structure, who have had rates
22 approved by the Board. So we don't believe that we have an
23 obligation to justify this structure.

24 If you wish to challenge the structure, then you are
25 welcome to.

26 MR. SHEPHERD: And we are, and we are entitled to ask
27 questions.

28 MR. TAYLOR: And I am not denying that you're entitled

1 to ask questions.

2 MR. SHEPHERD: Then answer them.

3 MR. TAYLOR: But that doesn't mean we are going to
4 answer all of your questions.

5 MR. SHEPHERD: Let me go at this a different way.

6 When was the last time that management of Whitby Hydro
7 Electric Corporation investigated whether it would be
8 cheaper to do what it does, that is to operate its
9 distribution system having its employees in-house? When
10 was the last time you looked at that?

11 [Witness panel confers]

12 MS. ABI-RASHED: In 2006 we went through a very
13 lengthy review of the organization, from June 2005 to the
14 end of 2006. And through that, it was established that
15 this organization and the transfer pricing mechanisms is
16 acceptable and appropriate for Whitby Hydro Electric
17 Corporation.

18 MR. SHEPHERD: Your question is non-responsive. I'm
19 going to ask the question again, and this one, I'm sure Mr.
20 Taylor will agree I am entitled to an answer.

21 When was the last time management of the utility
22 looked to whether it would be cheaper to do this in-house
23 instead of outsourced?

24 If your answer is you believe that you are not
25 required to do that as part of your fiduciary
26 responsibility, I would love to have you put that on the
27 record.

28 [Witness panel confers]

1 MR. TAYLOR: I think one of the problems with the
2 question and I think where there is some confusion is --
3 and that's why there is a reference to the 2006 analysis,
4 and then there was a transfer pricing analysis again in
5 2000 -- it is dated 2010 or 2009 -- is that that analysis
6 or part of that analysis looks at: What would the costs be
7 if the purchasing of these services were contained within
8 the utility? So --

9 MR. SHEPHERD: Point me to where that is.

10 MR. TAYLOR: That is what the whole purchasing
11 section, the whole second part of the analysis is.

12 MR. SHEPHERD: No. That is about outsourcing it to
13 somebody else. That is all, it is everything -- what it is
14 about.

15 MR. TAYLOR: No, that's not my understanding. The
16 outsourcing to third parties outside the services company
17 was not part of that analysis.

18 MR. SHEPHERD: So show me where you looked at how much
19 it would have cost you to operate the entire utility in-
20 house?

21 MR. TAYLOR: But those costs, though, show what the
22 market costs would be, and then there is a purchasing
23 department component added to that or analyzed to see what
24 those costs would be, if the purchasing had been done
25 within the utility.

26 So, in fact, the analysis has been conducted.

27 MR. SHEPHERD: Show me where it is. Give me the
28 evidence reference where you say looked at whether doing

1 this in-house or not would be cheaper or not. Show me
2 where.

3 MR. TAYLOR: It doesn't specifically say cheaper or
4 not, but the IMBS report that was filed conducts that
5 analysis. It looks at the fair market pricing, and it also
6 considers what the pricing would be if purchasing were done
7 within the utility.

8 MR. SHEPHERD: The fair market value pricing and in-
9 house operations are completely different things.

10 You are the VP finance. You are the chief financial
11 officer. You know that; right? It is true. Fair market
12 value and in-house are different things entirely; right?

13 MS. ABI-RASHED: I am not sure I understand your
14 entire question, but with respect to what you are
15 suggesting, in 2006 that was done. With respect to the
16 control room and the meter department, that particular
17 department was rationalized by the fact only a portion of
18 the supervisor's time is charged to those functions,
19 because he is shared.

20 In addition, we would have reviewed that again in --
21 through this process and we saw how that stands.

22 MR. SHEPHERD: The costs to operate the utility,
23 \$16.3 million in the test year, as you have told us, are
24 currently incurred in Services, all of them; right? I
25 mean, some of them they contract out, but basically they
26 incur those costs, right, \$16.3 million?

27 MS. ABI-RASHED: Yes.

28 MR. SHEPHERD: And 1.4 million of that, you have given

1 evidence, is profit. So my mind says -- I am not a finance
2 person, but my mind says, Well, then it looks like
3 \$14.9 million, you could do it in the utility. It is all
4 the same people.

5 MS. ABI-RASHED: If were you to do it in the utility,
6 you would have to put full bodies into the utility, and now
7 the positions are shared.

8 MR. SHEPHERD: Shared with whom? You haven't given
9 any evidence on that. That's what I don't understand. We
10 don't know whether you have any other business. You won't
11 tell.

12 MS. ABI-RASHED: That's right.

13 MR. SHEPHERD: So the evidence on the record is you
14 have \$16.3 million of revenue in the test year in Services.
15 Well, the utility could do it cheaper, 14.9 million; right?

16 MS. ABI-RASHED: No.

17 MR. SHEPHERD: Okay. So why not?

18 MS. ABI-RASHED: Well, let's talk about the control
19 room.

20 MR. SHEPHERD: Okay.

21 MS. ABI-RASHED: We would have to move a full body, a
22 supervisor, there to manage the control room.

23 MR. SHEPHERD: What's that person doing now?

24 MS. ABI-RASHED: They are doing several jobs, several
25 areas that are being shared.

26 If we were to, as you say, move to all internal costs,
27 the costs for WiresCo would go up.

28 MR. SHEPHERD: So you are basically applying the

1 stand-alone principle here. You are saying, Well, okay, if
2 you did it by yourself, you would have to spend on all of
3 these things and so we, Services, we want to take all of
4 the benefit of having --

5 MS. ABI-RASHED: No, that's not correct.

6 MR. SHEPHERD: I don't understand.

7 MS. ABI-RASHED: In WiresCo, the employees are not
8 allowed to be shared. So, as a result, when someone moves
9 to the wires company, they have to be fully dedicated to
10 that position. So there is no sharing involved. Sharing
11 can only go the other way, through Services to WiresCo.

12 MR. SHEPHERD: Help me understand where in the
13 evidence I would find information on that sharing. Is it
14 there somewhere, other than you just saying it? Is there
15 evidence on how the employees are shared and how the costs
16 are divided or anything like that? Is there any of that
17 there?

18 MS. ABI-RASHED: I would say no.

19 MR. SHEPHERD: Okay, thank you.

20 Let me ask a different question, then. Oh, by the
21 way, my question still stands. If you can show us where
22 management of the utility has actually looked at whether it
23 would be cheaper to do the whole thing in-house, done an
24 analysis and said, No, we can't do it cheaper than
25 \$16.3 million, if you could show us where you have done
26 that and where that is in evidence, I would appreciate
27 that. I haven't been able to find it.

28 I have found bits and pieces, but I have never been

1 able to find any analysis, and it sounds like you have
2 never actually done that analysis in full; is that right?

3 MS. ABI-RASHED: No, that's not true.

4 MR. SHEPHERD: Okay. So when was the last time you
5 did it in full?

6 MS. ABI-RASHED: Through every budget process, we look
7 through allocations and identify where work is being done.
8 And through that, we identify whether or not things are
9 still most cost effective through the sharing of employees.

10 MR. SHEPHERD: Okay. So that is -- so you do that in
11 the budget process; right?

12 MS. ABI-RASHED: That's correct.

13 MR. SHEPHERD: And presumably you then report on that.
14 So if you take a look at SEC No. 4, we asked you for the
15 presentations and supporting materials with respect to your
16 budget, because that's what we're looking for. We are
17 looking at: Why is it cheaper to do it in ServeCo?

18 You said, No, we won't provide you the presentations
19 and supporting materials.

20 So now would those presentations and supporting
21 materials have the information in it as to why it is
22 cheaper to do it in ServeCo?

23 MS. ABI-RASHED: I am going to decline that response
24 and I am going to take you back to the compliance review
25 that was done in 2006 and those -- each -- a department-by-
26 department analysis was done. Each department was
27 analyzed. The functions and tasks were identified, and
28 through that this model was derived.

1 So in 2006, a full scrutiny was done by the compliance
2 officer of all of the departments and that was done in
3 2006. That model is still sustained and continues on.

4 MR. SHEPHERD: Okay. So the basis, then, of your
5 conclusion today that it is cheaper to do this in ServeCo
6 is the departmental review you did in 2006, right, and that
7 it was also looked at by the CCO?

8 MS. ABI-RASHED: Yes. And those things are
9 maintained, yes.

10 MR. SHEPHERD: Please go to SEC No. 14. You have just
11 told us that that departmental review is where the key
12 information is. We asked you to provide it. We would
13 still like you to. You just now made it relevant.

14 MS. ABI-RASHED: This is -- there are a couple of
15 issues here. First, this is not a compliance review, and
16 we have gone through that at length.

17 And, secondly, those departmental information would
18 have information about Services company, as well. So we
19 would like to decline that.

20 MR. SHEPHERD: So that is another refusal. Okay.

21 Where was I? Back to SEC 13 for a second, one of the
22 things Ms. Reffle said a second ago was -- or a couple of
23 minutes ago was that your transfer prices from Services to
24 Utility are significantly under market prices; right?

25 And so the transfer prices you are talking about here
26 are the ones that I see in 57(d), Whitby transfer pricing
27 rate; is that what you are talking about?

28 MS. REFFLE: Yes, I believe you're -- I don't have the

1 reference in front of me, but, yes, it is the transfer
2 pricing report.

3 MR. SHEPHERD: Okay. Will you take the reference and
4 get it in front of you, because I have a couple of
5 questions on that?

6 MS. ABI-RASHED: Sorry, which -- if you could -- what
7 question was that?

8 MR. SHEPHERD: 57(d), the confidential attachment.

9 MR. MATHER: The VECC responses.

10 MR. TAYLOR: This is the table?

11 MR. SHEPHERD: Yes.

12 MR. TAYLOR: Okay.

13 MS. REFFLE: Okay.

14 MR. SHEPHERD: Okay. So what you are referring to
15 when you say that the transfer prices that you are charging
16 to utility are significantly under-market is the Whitby
17 transfer pricing rate that we see in this column?

18 MS. REFFLE: That's correct.

19 MR. SHEPHERD: Okay. So Ms. Abi-Rashed said that is
20 not what you are charging.

21 So how much -- what are you charging?

22 MS. ABI-RASHED: I think you asked that earlier and we
23 were going to get back to you on that, Jay.

24 MR. SHEPHERD: Well, I just heard somebody say: Yes,
25 that is what we are charging.

26 MS. REFFLE: No, I didn't say that. I just said that
27 is what I was referring to when I made the comment.

28 MR. SHEPHERD: When you said what you are charging is

1 less than market?

2 MS. REFFLE: That's right.

3 MR. SHEPHERD: So what you are charging --

4 MS. REFFLE: The transfer pricing rate is less than
5 market.

6 MR. SHEPHERD: But that is not what you are charging?
7 Or you don't know?

8 MS. REFFLE: It is not that specific in that
9 particular document, no, it's -- that's correct. Ms. Abi-
10 Rashed was correct.

11 MR. SHEPHERD: Okay. Let me approach this again a
12 different way.

13 The -- you are aware that your OM&A per customer is
14 higher than your peers?

15 MS. ABI-RASHED: I think if we refer you to the
16 question, we have addressed our position with the
17 comparative cohorts.

18 MR. SHEPHERD: Sorry?

19 MS. ABI-RASHED: If I could refer you to the -- there
20 is an interrogatory that addresses that.

21 MR. SHEPHERD: That's fine. It is a simple question.

22 You will agree, will you not, that your OM&A per
23 customer is higher than your peers? I mean, you're in
24 the --

25 MR. TAYLOR: Which peers are you referring to h?

26 MR. SHEPHERD: Well, the Board has a categorization
27 system. You are in the bottom category, right? That is a
28 simple question.

1 MS. ABI-RASHED: Yes.

2 MR. SHEPHERD: Okay. So what steps have you taken to
3 see how you can fix that problem?

4 MS. ABI-RASHED: If I refer you to OEB question 8 --

5 MR. SHEPHERD: Is this supplementary or original?

6 MR. MATHER: Original.

7 MR. SHEPHERD: Original? No, that's not it.

8 MS. ABI-RASHED: Could you please ask the question
9 again?

10 MR. SHEPHERD: Okay. What steps has management of the
11 Utility taken to solve the problem of your OM&A per
12 customer being in the bottom category?

13 MS. ABI-RASHED: Whitby Hydro is in the third cohort
14 group, but within that cohort group is at the median.

15 MR. SHEPHERD: So you have taken no steps to try to
16 improve the situation?

17 MS. ABI-RASHED: I haven't finished.

18 MR. SHEPHERD: Okay. Sorry.

19 MS. ABI-RASHED: In the response to the OEB Staff
20 question 8, items are identified.

21 MR. SHEPHERD: Sorry, did you have more to add?

22 MS. ABI-RASHED: Oh, I'm sorry. I thought you were
23 looking for the reference.

24 MR. SHEPHERD: No.

25 MS. ABI-RASHED: It is identified in the reference
26 with the -- there are several bullet points that are
27 identified.

28 MR. SHEPHERD: Okay. So let me ask you about those,

1 because we followed up on that.

2 MS. ABI-RASHED: Mm-hmm.

3 MR. SHEPHERD: And that's in our SEC 20.

4 MS. ABI-RASHED: Okay.

5 MR. SHEPHERD: Do you have that?

6 MS. ABI-RASHED: Yes.

7 MR. SHEPHERD: And so we asked about the management
8 team restructuring. You said: Well, that actually doesn't
9 have any net impact. Right?

10 MS. ABI-RASHED: Well, it has been through the years,
11 but for the '20 test year, it is not -- there's not an
12 impact. That's correct.

13 MR. SHEPHERD: So then help me with -- how does that
14 help you improve your performance on OM&A per customer?

15 MS. ABI-RASHED: If I could refer you to the response,
16 that the management team restructuring occurred early in
17 the rate period with the reduction of management personnel
18 who were not replaced. This functionality requirements,
19 the position of functionality requirements were dispersed
20 amongst existing management staff. While there is not
21 direct net improvement in the revenue requirement in the
22 test year as a result of the earlier restructuring, the
23 initiative allowed for a more cost-efficient position
24 leading up to the test year.

25 So those productivity gains, we would have realized
26 through up -- including to the 2010 test year.

27 MR. SHEPHERD: So you are saying there is no net
28 improvement in the revenue requirement for the test year,

1 but it would have been worse if you hadn't restructured
2 management?

3 MS. ABI-RASHED: What we're saying is that there are
4 other cost pressures from regulatory, accounting, various
5 things that we have identified in the application to do
6 with the high-growth utility, and through these initiatives
7 we were able to keep those other costs from increasing as
8 high.

9 MR. SHEPHERD: Okay. But you don't have any details
10 on that? That is your general impression. Do you have any
11 data on that?

12 MS. ABI-RASHED: I would have to think about that, see
13 what I could provide.

14 MR. SHEPHERD: Okay. Can I get an undertaking, then?

15 MS. ABI-RASHED: Oh, I'm sorry. Yes.

16 MR. MATHER: Okay. JT1.5.

17 **UNDERTAKING NO. JT1.5: TO PROVIDE DATA ON REVENUE**
18 **REQUIREMENT FOR 2020 TEST YEAR AND MANAGEMENT**
19 **RESTRUCTURING.**

20 MR. SHEPHERD: All right. The next part of the
21 response was with respect to the reduction in management
22 salary. You won't answer a question about that because it
23 is below the materiality level. Help me understand that.

24 MS. ABI-RASHED: Well, in fact I can provide that
25 information for you.

26 MR. SHEPHERD: Thank you.

27 MS. ABI-RASHED: The combination of the salary
28 reduction and seminar, it comes to 60,000, 25,000 for

1 conference and 35,000 for management.

2 MR. SHEPHERD: Okay. And one of the things you did is
3 you -- is the non-capitalization of interest costs. Help
4 me with that.

5 MS. ABI-RASHED: Whitby Hydro does not recognize
6 AFUDC.

7 MR. SHEPHERD: Okay. Why not?

8 MS. ABI-RASHED: When AFUDC was introduced back in
9 2000 with the new system of accounts, we worked with our
10 auditors to implement the new system of accounts and it was
11 their recommendation that AFUDC was not implemented for
12 GAAP purposes, but for ratemaking, there was an opportunity
13 there for increases to our rate base as a result of AFUDC.

14 At this point in time, we can't quantify it. It would
15 be quite a bit of work. For the most part, it would take
16 quite a bit of time to calculate. So from that point of
17 view, it is difficult to quantify, but that is where --
18 that's the point we are trying to make.

19 MR. SHEPHERD: So you expense your interest?

20 MS. ABI-RASHED: There is no interest recognized.

21 MR. SHEPHERD: Well, I don't understand. You pay
22 interest; right? Like, you have -- during construction,
23 when you have things being constructed, you are incurring
24 an interest cost associated with the cost of those funds;
25 right?

26 MS. ABI-RASHED: No. We don't recognize -- GAAP does
27 not recognize this as an interest cost.

28 MR. SHEPHERD: Well, where does the cost go? You do

1 have a cost.

2 MS. ABI-RASHED: The cost, with respect to the
3 installation of capital works, would be borne by the
4 shareholder, because these funds are paid out of equity.

5 MR. SHEPHERD: That can't be right. That can't be
6 right. Sorry.

7 MS. ABI-RASHED: Well, I guess I don't understand your
8 question.

9 MR. SHEPHERD: For GAAP purposes, if you pay interest
10 on a loan, it is called interest; right?

11 MS. ABI-RASHED: Yes, but we are not borrowing any
12 money to fund these projects.

13 MR. SHEPHERD: Well, you are borrowing money as an
14 organization; right?

15 MS. ABI-RASHED: Could you please clarify that or
16 elaborate?

17 MR. SHEPHERD: The company borrows money. Money is
18 not fungible. If you get money, you use it for whatever
19 you need it for; right?

20 MS. ABI-RASHED: Hmm-hmm.

21 MR. SHEPHERD: If you have a project that you are
22 building, you need money for it; right?

23 MS. ABI-RASHED: Correct.

24 MR. SHEPHERD: That comes from all of your sources of
25 money together, doesn't it?

26 MS. ABI-RASHED: Correct.

27 MR. SHEPHERD: That includes borrowing, doesn't it?

28 MS. ABI-RASHED: We have not borrowed to fund our

1 capital programs.

2 MR. SHEPHERD: Where do you get the money to fund your
3 capital programs?

4 MS. ABI-RASHED: It comes from working capital and
5 equity.

6 MR. SHEPHERD: And so then that much less of the
7 working capital and equity is being used to fund the
8 operations; right?

9 MS. ABI-RASHED: I don't understand the question.

10 MR. SHEPHERD: Well, you can't use it for more than
11 one thing, can you? So if you use equity to fund capital
12 programs, you can't use it to fund operations, can you?

13 MS. ABI-RASHED: I am not sure what you are trying to
14 get at.

15 MR. SHEPHERD: Well --

16 MS. ABI-RASHED: We don't -- there is an ability to
17 recognize enhancements to your rate base through AFUDC. We
18 do not do that.

19 MR. SHEPHERD: I don't understand how the ratepayers
20 are benefitting from that, or how that reduces your OM&A
21 per customer, improves that situation.

22 MS. ABI-RASHED: It does not -- it does not reduce the
23 OM&A. It reduces rate base.

24 MR. SHEPHERD: So this has nothing to do with my
25 original question of OM&A per customer?

26 MS. ABI-RASHED: No, it doesn't, you're right.

27 MR. SHEPHERD: All right. Thank you. I lost track of
28 where I was.

1 So aside from the things you have in Staff 8, you have
2 nothing else -- no actions that you have taken to reduce
3 your OM&A per customer; is that right?

4 MS. ABI-RASHED: Well, we've -- we would have -- I
5 think we have -- in our evidence we talk about how we tried
6 to minimize our costing, internal resources. We have tried
7 to avoid from adding staff if we don't -- or adding
8 resources. So other than that, no.

9 MR. SHEPHERD: Have you looked at whether moving all
10 or some of the functions into the utility so that you don't
11 pay a mark-up, whether that would improve your OM&A per
12 customer?

13 MS. ABI-RASHED: If we were to move --

14 MR. SHEPHERD: Sorry. Before you give me an
15 explanation, it was a yes/no question. Have you looked at
16 it?

17 MS. ABI-RASHED: Yes.

18 MR. SHEPHERD: Okay. When?

19 MS. ABI-RASHED: 2006.

20 MR. SHEPHERD: Okay, thank you. Go on.

21 MS. ABI-RASHED: And throughout the budget process, as
22 we go through it. We review it every year.

23 MR. SHEPHERD: Okay. And so the last review would
24 have been for your budget for this year?

25 MS. ABI-RASHED: That's correct.

26 MR. SHEPHERD: Can I then ask you to undertake to file
27 whatever document has that in it?

28 MS. ABI-RASHED: No. I would decline.

1 MR. SHEPHERD: Okay.

2 MS. ABI-RASHED: And if I may add that, that review is
3 done based on the model that was established in 2006 and is
4 maintained.

5 MR. SHEPHERD: Do you have another justification for
6 that, aside from the fact that the CCO approved it?

7 MS. ABI-RASHED: I would think that would be a very
8 good plan, seeing that the COO reviewed it and we worked
9 collaboratively over a year and a half.

10 MR. SHEPHERD: I understand what you are saying, but I
11 am asking a much simpler question, and that is: Do you
12 have a different justification, other than that?

13 MS. ABI-RASHED: Based on that model, we continue to
14 believe that is the most cost-effective methodology.

15 MR. SHEPHERD: Okay. Let me move to --

16 MR. MATHER: Jay, I have a better view of the clock
17 here than you do. Do you have an estimate of whether we
18 should have a break? We have been going for an hour and a
19 quarter.

20 MR. SHEPHERD: Two things. First of all, some of us I
21 think are going to be in a conference call at 3 o'clock,
22 and I expect that I have, at the very least, another hour.

23 Whether it is longer than that I have no idea. Some
24 of these are taking more time than I expected.

25 MR. MATHER: What's everybody's pleasure here?

26 MR. SHEPHERD: I am in everyone's hands here.

27 MR. MATHER: I don't picture sitting here for another
28 hour plus -- without a break, so what is everyone's wishes,

1 including the Panel, I guess?

2 MR. TAYLOR: Why don't we take a quick lunch break?

3 Let's not drag it out.

4 MR. SHEPHERD: All right.

5 MR. MATHER: Quick, being a half hour?

6 MR. SHEPHERD: 12:30.

7 MR. MATHER: 12:30. Return at 12:30, 40 minutes from
8 now.

9 MR. SHEPHERD: That's fine with me.

10 MR. MATHER: Okay, that is the plan.

11 MR. SHEPHERD: Thank you.

12 --- Luncheon recess taken at 11:50 a.m.

13 --- On resuming at 12:37 p.m.

14 MR. MATHER: So I see everybody at their stations, so
15 why don't you proceed, Jay?

16 MR. SHEPHERD: Thank you.

17 I just want to follow up on something with respect to
18 this 10-percent amount, whatever it is, the return or
19 whatever. You charge that on capital spending too, right?
20 We saw that there is an amount in the capital budget for
21 that?

22 MS. ABI-RASHED: That's correct. Can you hear me?

23 MR. SHEPHERD: Yes.

24 MS. ABI-RASHED: Okay. Sorry.

25 MR. SHEPHERD: You have been charging that all along?
26 Like since 2000, since market opening, you have been
27 charging it?

28 MS. ABI-RASHED: We have been charging some kind of a

1 mark-up, yes.

2 MR. SHEPHERD: Has it changed?

3 MS. ABI-RASHED: If you would look at the compliance
4 report, that was outlined. That was -- the percentages
5 there were identified, that were being used previously.

6 MR. SHEPHERD: And the percentage was higher?

7 MS. ABI-RASHED: That's correct.

8 MR. SHEPHERD: What was it before?

9 MS. ABI-RASHED: It was -- it was 15 percent.

10 MR. SHEPHERD: Okay. So then your rate base for the
11 test year, what you're currently proposing is now
12 77.2 million; is that right?

13 MS. ABI-RASHED: Just let me check that, please.

14 That's correct.

15 MR. SHEPHERD: And since market opening, that rate
16 base has included this profit margin, formerly 15 percent,
17 now 10 percent, right?

18 [Witness panel confers]

19 MS. ABI-RASHED: Jay, could you repeat the question,
20 please?

21 MR. SHEPHERD: Since market opening, since WHEC was
22 incorporated, an amount for a profit has been included in
23 rate base based on the amounts charged by the Services
24 company, right?

25 MS. ABI-RASHED: Yes.

26 MR. SHEPHERD: And it was 15 percent until 2006 and it
27 is 10 percent since then?

28 MS. ABI-RASHED: I have to check back, as far as when

1 the 15 percent started. But I would say I agree with that.
2 And in 2009 it was 12 percent, and in '10 it is 10 percent.

3 MR. SHEPHERD: Okay. So do you know what the total of
4 that is over the last 10 years?

5 MS. ABI-RASHED: No.

6 MR. SHEPHERD: It is going to be in around
7 \$10 million, isn't it? I don't want you to give me an
8 exact number. I am just trying to get a sort of a bigger-
9 than-a-bread-box analysis.

10 If 741 is the amount for 2010 and that's at
11 10 percent, then I am just assuming, if you work backwards,
12 that you are probably talking about some average of around
13 a million, over the last 10 years, per year.

14 MS. ABI-RASHED: No. No, it's not that high.

15 MR. SHEPHERD: Okay. So what I would like you to do
16 is I would like you to undertake to provide us with the
17 amount that is included in your current rate base for the
18 test year that represents mark-ups to Service co. I
19 understand you will have to take the gross asset costs,
20 some part of that will have been for Service co profit, but
21 then I also understand you will have depreciated that so it
22 will have been reduced. I get that.

23 But this is a calculation that is doable, right?
24 Because you know what the mark-up has been each year.

25 MS. ABI-RASHED: Mm-hmm.

26 MR. SHEPHERD: You have records?

27 MS. ABI-RASHED: I would like to give that one some
28 thought, please.

1 MR. SHEPHERD: Well, I am asking for you to undertake
2 to give me the answer.

3 MS. ABI-RASHED: Yes. And I am considering whether or
4 not to undertake.

5 MR. SHEPHERD: I can wait.

6 [Witness panel confers]

7 MS. ABI-RASHED: The previous mark-ups would have been
8 part of the previous rate applications for 2006, and they
9 were approved in our rates for 2006.

10 As a result, I don't see the need for that
11 information.

12 MR. SHEPHERD: You are asking for a rate base of
13 \$77.1 million or \$77.2 million. Some portion of that is
14 profit that was earned by Service co. I am asking to know,
15 for 2010, how much of the rate base that you are asking the
16 Board to approve and on which your profit will be
17 calculated is profits that have already been siphoned off
18 to Service co.

19 So there is no question about relevance here.

20 MS. ABI-RASHED: Well, these would have been approved
21 in our 2006 rates.

22 MR. SHEPHERD: Rate base this year is what I am asking
23 about.

24 MR. TAYLOR: If I may have a moment.

25 [Counsel confers with Witness Panel]

26 MS. ABI-RASHED: If you would ask the question one
27 more time, because I want know exactly what you require.

28 MR. SHEPHERD: I would like to know how much of

1 your -- the rate base that you are requesting the Board to
2 approve in the test year is made up of profits that have
3 been earned by Service co and show the calculation of how
4 you got there.

5 MS. ABI-RASHED: We will undertake to provide the
6 amount that is included in the 2010 rate base.

7 MR. SHEPHERD: And the calculation of how you got
8 there?

9 MS. ABI-RASHED: Pardon?

10 MR. SANDERSON: And the calculation?

11 MR. SHEPHERD: If you put out a number, I am entitled
12 to know how you got to the number. It's standard.

13 MR. TAYLOR: Just so we understand, in order to avoid
14 this carrying on, maybe you could explain how you want or
15 what you expect the calculation would look like, because if
16 they're going to go do a calculation, it will look like
17 nothing that you are looking for and they are just going to
18 have to go back on or deny it. But why don't we see
19 whether or not you are in the same ballpark in terms of how
20 you are calculating or envisioning the calculation would be
21 made?

22 MR. SHEPHERD: I think if you do a correct
23 calculation, you will say, What was my opening rate base
24 when this company was created, and how much of the annual
25 additions, each year, were profit to ServiceCo, and how
26 much of the accumulated depreciation is depreciation on
27 those profits, and what's the net amount of profits that is
28 still in the rate base today, as of the test year?

1 MS. ABI-RASHED: Yes.

2 MR. SHEPHERD: I am guessing it is 8 million,
3 9 million, something like that, but...

4 MS. ABI-RASHED: No, that's fine. I understand what
5 you want. That's fine, yes.

6 MR. SHEPHERD: Okay?

7 MS. ABI-RASHED: Hmm-hmm.

8 MR. SHEPHERD: Thank you.

9 MR. MATHER: JT1.6.

10 **UNDERTAKING NO. JT1.6: TO PROVIDE THE AMOUNT INCLUDED**
11 **IN THE 2010 RATE BASE.**

12 MR. SHEPHERD: Okay, let's move on.

13 Okay, let's start with SEC No. 1. Again, this is a
14 supplementary. And I don't understand what was unusual
15 about the fact that you had some people sick from time to
16 time or some of their family members were sick. That's
17 sort of normal, isn't it?

18 MS. ABI-RASHED: In this case, they were not normal
19 absences, and we have a very small complement, and we had
20 many or several atypical absences that we would not have
21 for years.

22 MR. SHEPHERD: Okay. And, so as a result, you
23 basically -- that resulted in four person months of your
24 entire regulatory group?

25 MS. ABI-RASHED: Four person months of a person.

26 MR. SHEPHERD: Of one person?

27 MS. ABI-RASHED: One person.

28 MR. SHEPHERD: I am trying to understand how that

1 explains a delay, like, the delay you had. I would have
2 thought that you have more than one person working on a
3 rate case, obviously?

4 MS. ABI-RASHED: Yes.

5 MR. SHEPHERD: Right? And you were more than four
6 months late?

7 MS. ABI-RASHED: Yes.

8 MR. SHEPHERD: So I don't understand how one person --
9 even if you had one key person out for four months, I don't
10 understand why that means you would be six months, or
11 whatever it was, behind in your filing.

12 MS. ABI-RASHED: That would depend who the key person
13 was.

14 MR. SHEPHERD: Yes, okay. I understand.

15 Let me turn to SEC number 7, and I -- this is about
16 IFRS; right?

17 MS. ABI-RASHED: Hmm-hmm.

18 MR. SHEPHERD: And you are going to have some changes
19 because of IFRS?

20 MS. ABI-RASHED: Yes.

21 MR. SHEPHERD: And in the test year -- no, in the --
22 not in the test year, because the test year is actually
23 this year. Next year, you are going to have some
24 accounting changes resulting from IFRS; right?

25 MS. ABI-RASHED: That's correct.

26 MR. SHEPHERD: And you are working now in the test
27 year on that; right?

28 MS. ABI-RASHED: That's correct.

1 MR. SHEPHERD: And this appears to say that you put
2 your work on hold, but I thought there was stuff in the
3 budget for IFRS, isn't there?

4 MS. ABI-RASHED: Yes -- no. We do not have any IFRS
5 costs in the rate application, but in Whitby Hydro's
6 budget, a board-approved budget.

7 MR. SHEPHERD: So the board-approved budget is
8 different from the --

9 MS. ABI-RASHED: Yes.

10 MR. SHEPHERD: -- utility's budget?

11 MS. ABI-RASHED: That's right.

12 MR. SHEPHERD: Oh, why is that?

13 MS. ABI-RASHED: There are certain things we exclude
14 for rate purposes where we have normalized costs, things of
15 that nature.

16 MR. SHEPHERD: Are there certain things you include
17 for rate purposes?

18 MS. ABI-RASHED: Sorry, can you ask that again?

19 MR. SHEPHERD: You exclude some things for rate
20 purposes; right? That is, the budget for rate purposes is
21 lower than the full budget; right?

22 MS. ABI-RASHED: Yes.

23 MR. SHEPHERD: Are there also things you include for
24 rate purposes that you don't include in the budget so that
25 the budget for rate purposes is higher?

26 MS. ABI-RASHED: No.

27 MR. SHEPHERD: So the budget, then, that is approved
28 by your board is higher than the budget that you are

1 seeking approval from this Board?

2 MS. ABI-RASHED: Except for in the case of capital,
3 where we would have added the secondary services of
4 \$678,000. That is not any kind of accounting entry to be
5 done or is not reflected in our budget. It is a rate-
6 making issue.

7 MR. SHEPHERD: Help me understand that.

8 MS. ABI-RASHED: Let's see. I am just trying to think
9 in my mind.

10 The secondary services were -- are an adjustment to
11 the rate base, but not to the accounting.

12 MR. SHEPHERD: That doesn't help me understand. Maybe
13 you could expand on that a little bit.

14 MS. ABI-RASHED: There is no capital outlay in the
15 2010 budget related to secondary services.

16 MR. SHEPHERD: Then why is it added to rate base?

17 MS. ABI-RASHED: If I could refer you to the evidence
18 -- we are just going to look for it.

19 It is originally addressed in the evidence, page 147
20 to 149 -- pardon me, in the rate application. Then there
21 were some subsequent interrogatories with respect to the
22 calculations and explanations as to why we are requesting
23 it.

24 So it explains -- if you would like me to read it out
25 loud?

26 MR. SHEPHERD: No. I would just like you to give me a
27 précis in your own words.

28 MS. ABI-RASHED: Pardon me?

1 MR. SHEPHERD: Give me a précis in your own words.

2 MS. ABI-RASHED: These are assets that we were not --
3 we do not record in our accounting records, and, as a
4 result, but for rate-setting purposes, we have -- hold on,
5 let me -- give me a moment.

6 If you don't mind, I am going to go back to the
7 evidence, because it is complicated.

8 MR. SHEPHERD: Well, that is why I am asking for a
9 simpler explanation.

10 MS. ABI-RASHED: Even for me, the accountant, I need
11 to go back to those concepts, because otherwise -- sorry.
12 Would you like me to explain the whole history behind the
13 secondary services?

14 MR. SHEPHERD: No. I am looking for a sort of a -- as
15 simple as you can possibly put it, why it is appropriate to
16 add this to rate base for ratemaking purposes and not for
17 accounting purposes.

18 I would understand if you had to make an accounting
19 adjustment because you hadn't included something in the
20 past, and you are saying to the Board that: We've got to
21 include this asset. It hasn't been included. But if it's
22 not an asset for accounting purposes, I don't understand
23 how it would be an asset for rate base purposes.

24 So can you just give me the sort of simple explanation
25 as to why, conceptually, that is the case?

26 MS. ABI-RASHED: Okay. I will try to be simple.

27 These secondary services are a portion of the
28 distribution system from the lot line to the customer

1 interface.

2 These were not recorded as assets in Whitby Hydro's
3 accounting records.

4 MR. SHEPHERD: At the time of market opening?

5 MS. ABI-RASHED: Yes, yes.

6 MR. SHEPHERD: Yes.

7 MS. ABI-RASHED: And actually even prior to that.

8 MR. SHEPHERD: But when you transferred everything
9 into the corporation --

10 MS. ABI-RASHED: Yes.

11 MR. SHEPHERD: -- you didn't include an amount for
12 this?

13 MS. ABI-RASHED: That's correct.

14 MR. SHEPHERD: Okay.

15 MS. ABI-RASHED: Now, in 1999, that was the last year
16 to have contributed capital recognized as part of rate
17 base. After that, it's -- so in 1999 -- when we -- in
18 2000 --

19 Okay. In 2000 there were some other things that were
20 going on with respect to demarcation point, clarification
21 about the lot line and ownership.

22 Through the course of 2000 -- and I think it is in
23 evidence -- we realized that we should have recorded this
24 as an asset. And we had approached our auditors to go
25 through, because we had a valuation done for tax purposes,
26 for these items. And --

27 MR. SHEPHERD: That's the market value adjustment?

28 MS. ABI-RASHED: Pardon?

1 MR. SHEPHERD: That was the market value adjustment?

2 MS. ABI-RASHED: That's correct.

3 MR. SHEPHERD: Okay.

4 MS. ABI-RASHED: Yes. The market value adjustment
5 was based on that analysis that is provided in the
6 evidence.

7 MR. SHEPHERD: Sure.

8 MS. ABI-RASHED: The accounting -- they would not
9 allow us to do a prior period adjustment, because of --
10 it's when the assets were -- we cut over to a new
11 corporation. So as a result, they said: You aren't
12 allowed to do it for accounting. And they directed us to
13 approach, you know -- for your ratemaking purposes, you
14 should pursue it.

15 We, in our CCA, we include those assets in there.

16 MR. SHEPHERD: Because you bought them? I mean, from
17 a tax point of view, the taxable corporation bought the
18 assets, right?

19 MS. ABI-RASHED: Well --

20 MR. SHEPHERD: So you could include any number you
21 wanted, right?

22 MS. ABI-RASHED: No, no, no, no, no. No, you
23 couldn't.

24 They physically inspected the lines and the
25 residential areas where we were looking at these things, to
26 understand the configuration. There was actual physical
27 inspection done of the whole system.

28 MR. SHEPHERD: No, sorry. I am not saying you could

1 include things that you didn't buy.

2 What I am saying is that for tax purposes, you could
3 include anything up to fair market value.

4 MS. ABI-RASHED: Correct.

5 MR. SHEPHERD: Whereas for ratemaking purposes, you
6 could only include what you paid for them, right?

7 MS. ABI-RASHED: Correct. Now --

8 MR. SHEPHERD: So did you pay for these --

9 MS. ABI-RASHED: I -- if I may?

10 MR. SHEPHERD: Sorry.

11 MS. ABI-RASHED: Yeah, no problem.

12 Prior to 2000, we were allowed to -- for
13 contributions, we were allowed to include them in rate
14 base. After 2000, what you say -- if you haven't paid for
15 it, it is not in rate base.

16 Completely true.

17 MR. SHEPHERD: Okay.

18 MS. ABI-RASHED: So we were caught in the accounting
19 issue, not being able to -- that would have been the
20 easiest solution for us, and we did try, but we were not
21 able to.

22 Then I think the rest is pretty self-explanatory. So
23 you have these assets that are out there that we are -- the
24 other option would have been -- we are responsible for
25 them. We maintain them.

26 The other option to hold us -- which would have been
27 to Whitby Hydro's advantage, would be to move the
28 demarcation point at the lot line versus the meter base.

1 And what that would mean, the customer would be responsible
2 for the underground service. And that would -- we thought
3 that was not in the best interests of the customer.

4 So --

5 MR. SHEPHERD: Is that allowed under the Distribution
6 System Code?

7 MS. ABI-RASHED: What's that?

8 MR. SHEPHERD: Is that allowed, doing that under the
9 DSC?

10 MS. ABI-RASHED: You can choose your demarcation
11 point.

12 MR. SHEPHERD: So you can choose the meter or you can
13 choose the street? It is up to you?

14 MS. ABI-RASHED: Yes, yes.

15 MR. SHEPHERD: Okay.

16 MS. ABI-RASHED: So we were going -- given the fact we
17 weren't allowed to include it in rates, we were exploring
18 the idea of moving it to the lot line, and then at the end
19 of the day said: This is not -- not the right thing in the
20 customer's best interests. It is not acceptable.

21 So this is where we pursued it, and throughout the
22 years -- I think it is in evidence -- we have tried
23 numerous times to approach it, and this is the first
24 opportunity.

25 So as a result, that is why there is not the same
26 amount in the Whitby Hydro budget.

27 MR. SHEPHERD: Your 2006 rates were based on 2004
28 actual costs and actual rate base. This was not included

1 in that?

2 MS. ABI-RASHED: That's correct.

3 MR. SHEPHERD: Why not?

4 MS. ABI-RASHED: Because there were only tier 1 and
5 tier 2 adjustments required and it did not fall in either
6 of those categories.

7 MR. SHEPHERD: And the reason was because your
8 accountants wouldn't let you include it from an accounting
9 point of view, and so you couldn't get it in your actual
10 costs because of GAAP, right? And because the rates were
11 set on actual costs, those actual costs were driven by your
12 accounting records, right?

13 MS. ABI-RASHED: Well, if we were to -- let's just say
14 that the -- in order to include it in the accounting, there
15 would be a lot of issues required, a lot of work to go over
16 the accounting rules to get that in place, including prior
17 period adjustments, and it becomes complicated when the
18 assets were transferred over. So it becomes very
19 complicated and costly.

20 MR. SHEPHERD: So what you are proposing in this case
21 is, if I understand your prefiled evidence correctly, that
22 -- let's assume that this was put in rate base at market
23 opening. What would be left to be added to -- what would
24 be left in rate base today? Whatever that is, let's make
25 an adjustment for it now?

26 MS. ABI-RASHED: No.

27 MR. SHEPHERD: Okay. That's --

28 MS. ABI-RASHED: What it was is the -- and maybe I

1 don't understand your question -- but it would be based on
2 the actual -- the assets when they were put in service. If
3 they went back to prior to '81 or '86, they would have no
4 book --- the net book value would be zero. So I don't know
5 if that is the same question that you are asking me.

6 So net book value was put in at the time, but it is
7 identified by the different years when the assets came into
8 service.

9 MR. SHEPHERD: Oh, but you are actually proposing to
10 put into rate base now what should have gone in in 2000,
11 right?

12 MS. ABI-RASHED: The depreciated value of what would
13 have gone in in 2000 -- the net book value of the asset in
14 2000 now taken so many years later and continued on the
15 depreciation.

16 MR. SHEPHERD: Maybe I misunderstand this. I had
17 understood that you were trying to put in about 677,000,
18 678,000.

19 MS. ABI-RASHED: It has now been corrected, though.
20 It is down to 538,000. There was an error.

21 MR. SHEPHERD: Ah, okay. That is why I am confused.

22 MS. ABI-RASHED: Yes.

23 MR. SHEPHERD: So you are saying it was 678 as of
24 2000, and -- but now you have assumed depreciation
25 throughout. And what is left is 538, which you put in now?

26 MS. ABI-RASHED: No. What was as of 2000 was, let's
27 just say, greater than the 678. That would have been a
28 different number.

1 What has happened since -- has been 10 more years of
2 depreciation --

3 MR. SHEPHERD: Let me just stop you for a second. I
4 am looking at page 149 of your evidence. It is a chart.
5 It says: Net book value as of December 31st, 2009, and it
6 shows the net book value up to 2000 for each category.

7 MS. ABI-RASHED: That's right, but it's as of 2009.
8 So years drop off. The lower years are dropping off, so...

9 MR. SHEPHERD: But that column at the right --

10 MS. ABI-RASHED: Yes.

11 MR. SHEPHERD: -- \$678,000, that is not the net book
12 value as of 2000 of all of these things?

13 MS. ABI-RASHED: As of -- no. No, it's not.

14 MR. SHEPHERD: Okay. I misunderstood, then. All
15 right. And now you don't have any ruling or anything from
16 the Board or any official of the Board saying this is okay,
17 do you?

18 MS. ABI-RASHED: No. That's why we are putting it in
19 our rates.

20 MR. SHEPHERD: Yes, okay. Just checking.

21 MR. AIKEN: Can I jump in here?

22 MR. SHEPHERD: Sure.

23 MR. AIKEN: Just one clarification, Ramona. The 678,
24 you said that has now been corrected to 538?

25 MS. ABI-RASHED: Yes.

26 MR. AIKEN: Was the 678 part of the 8.4 million in net
27 capital expenditures shown for 2010?

28 MS. ABI-RASHED: Yes.

1 MR. AIKEN: So now the net capital expenditures for
2 2010 --

3 MS. ABI-RASHED: Are 7.7.

4 MR. AIKEN: Yes. That is excluding the 538?

5 MS. ABI-RASHED: Yes. Yes. I mean, we're still using
6 the 678 as the basis, but, yes.

7 MR. AIKEN: Okay, thanks.

8 MR. SHEPHERD: Sorry, I didn't understand that.

9 MR. AIKEN: Tough.

10 MR. SHEPHERD: That was most helpful, Mr. Aiken. Now
11 I don't understand.

12 Your net capital expenditures were eight, something.
13 Now they're 7.7, and there is a \$140,000 difference in this
14 particular amount, from 678 down to 538. So that 140,000
15 adjustment shouldn't have taken you down to 7.7 million.

16 MS. ABI-RASHED: No. What we are doing is we're using
17 the original 678, because in the 8.4, the 678 is in the
18 original -- is in that amount.

19 MR. SHEPHERD: You're saying it's 7.7 plus 538,
20 because you are still asking for the 538?

21 MS. ABI-RASHED: That's correct.

22 MR. SHEPHERD: Ah.

23 MR. AIKEN: Capital expenditure.

24 MR. SHEPHERD: Well, it is, but it was 20 years ago.

25 MR. AIKEN: Yes.

26 MR. SHEPHERD: Okay. Let me go to SEC No. 18.

27 And what we asked you for is your report to the
28 shareholders -- to the shareholder as of the quarter ended

1 March 31st, and you said you won't give it to us because it
2 is an internal document. That is not one of the criteria
3 under which you are allowed to refuse a question.

4 So is it materiality or relevance that you are saying
5 is the reason why you are not answering this?

6 MR. TAYLOR: Maybe I will jump in.

7 The Board has commented, in past decisions, that it
8 doesn't need to see the genesis of certain things that are
9 put in an application, such as budgets.

10 Although you could argue pretty much anything is
11 relevant somehow, we don't think that the probative value
12 of this requires us to give it to you.

13 MR. SHEPHERD: Well, that would be great if I was
14 asking for a budget, but that is not what I'm asking for.
15 This is a quarterly report of actuals.

16 MR. TAYLOR: The same idea, an internal document.

17 MR. SHEPHERD: No. But, Mr. Taylor, getting actuals
18 for the test year is common practice in rate cases. As you
19 know, it is very often -- often you will get a three plus
20 nine or six plus six, and all I am asking is -- the easiest
21 way to get this without making you go to the trouble of
22 doing a four plus eight for the test year is to say, Well,
23 you have the data already for the first quarter. Give it
24 to us. That's what we're asking.

25 So it is nothing to do with budgeting. This has to do
26 with actuals, standard. The Board has ruled many times
27 that that is relevant. I am not asking for the budget. I
28 am asking for the actuals.

1 MR. TAYLOR: I understand that. But we actually feel
2 that we have provided the necessary information and we are
3 going to decline your request.

4 MR. SHEPHERD: Then I will ask this a different way.

5 You have actuals for some portion of this year for all
6 of your costs; right?

7 MS. ABI-RASHED: That's correct.

8 MR. SHEPHERD: Okay. I would like to have actuals up
9 to the last month that you have them for.

10 MR. TAYLOR: We can provide that, can't we?

11 MS. ABI-RASHED: I just want to get clarification. I
12 want to know what we are....

13 [Counsel consults with Witness Panel]

14 MS. ABI-RASHED: We can provide you March's in that
15 form that you are requesting.

16 MR. SHEPHERD: Like a three plus nine?

17 MS. ABI-RASHED: Um...

18 MR. SHEPHERD: I mean, you must have April by now. I
19 understand May might be a little early, but you must have
20 April by now. So can't you give us a four plus eight for
21 the year, for actual 2008 forecast?

22 MS. ABI-RASHED: I am just concerned about the -- we
23 can provide it. I am just concerned about the time it is
24 going to take to produce it in the format of the four plus
25 -- the four plus eight.

26 MR. TAYLOR: Four plus eight. You're talking about
27 the timing to update the application on a four-plus-eight
28 basis versus a three-plus-nine basis?

1 MS. ABI-RASHED: It would be about the same. It would
2 be about the same. I mean, I just -- in the format.

3 MR. TAYLOR: Okay. So that is something that can be
4 provided to Mr. Shepherd?

5 MS. ABI-RASHED: Yes. What you are asking, though, is
6 not only do we need to do the -- you basically want a
7 reforecast of the whole rate application?

8 MR. SHEPHERD: Typically, in a four plus eight what
9 you would do -- or whatever, an actual plus forecast update
10 is you would take your OM&A budget that you gave -- that
11 you put in the application, and you would restate it with
12 four months of actual, eight months of forecast, new total.

13 So we have four columns, what you ask for, four
14 months, eight months, the new number, your new forecast,
15 which isn't necessarily a new thing you are asking for. It
16 is just where you currently expect to be.

17 You would do the same thing for capital and do the
18 same thing, by the way, for revenues.

19 MS. ABI-RASHED: It is a new thing. It's, you know --
20 yeah, it's going to take some time. I know what you are
21 asking, but it is going to take some time to complete. It
22 is basically taking the rate application and having four
23 months' worth of actuals in there, and the rest forecast --

24 MR. SHEPHERD: I am not asking you to rewrite the
25 whole rate application. That would be a lot of work. We
26 are just asking you to take the key components - OM&A,
27 capital and load forecast - for which presumably you are
28 keeping up to date on them on a monthly basis, anyway, as

1 part of your normal management. So just give us the
2 current thinking on where you are.

3 MR. TAYLOR: So essentially the table that sets out
4 the revenue deficiency that summarizes the key components
5 of the application?

6 MR. SHEPHERD: No, we don't want the summary. We want
7 the list. So you are going to have, for example --

8 MR. TAYLOR: No, no. With each component within that
9 table we would provide an update for.

10 MR. SHEPHERD: So, for example, you have a list of
11 OM&A by category, right, in your application?

12 MR. TAYLOR: Oh, you want it on that level. On an
13 account basis?

14 MR. SHEPHERD: Well, not by account, but you have
15 like --

16 MR. TAYLOR: Major categories?

17 MR. SHEPHERD: -- the 20 categories or something that
18 you have. And you know what your actuals are for four
19 months, and you, presumably, from a management point of
20 view, looked at, Should we rethink what our number is going
21 to be for the end of the year? So you have a new forecast.

22 MR. TAYLOR: We understand that. We are just trying
23 to figure out what level of detail you are looking for.

24 MR. SHEPHERD: I would say --

25 MR. TAYLOR: Like, major account --

26 MR. SHEPHERD: -- you typically have a breakdown of 20
27 categories of OM&A, and you typically have a breakdown of
28 ten categories or so of capital.

1 MS. ABI-RASHED: It's a lot of work.

2 MR. SHEPHERD: You know the level of granularity I am
3 talking about?

4 MS. ABI-RASHED: Oh, I know. It's a lot to -- I know
5 what you are asking.

6 MR. TAYLOR: I think the concern is that it is going
7 to take a long time to prepare. So could we provide that
8 to you on a less granular level?

9 MR. SHEPHERD: Well, of course we can simplify the
10 process if you just give us the March 31st shareholder
11 report.

12 MR. TAYLOR: No.

13 MR. SHEPHERD: Sorry. I just thought I would try.

14 MR. TAYLOR: We understand what you want to do, and we
15 actually -- and the theory is correct. We agree with it.
16 It is just a matter of how we are going to get to it, Mr.
17 Shepherd.

18 MR. SHEPHERD: Why don't I suggest this?

19 Give the undertaking on the basis that you will give
20 us the most granularity you can within a reasonable time,
21 and if it looks like what you can do is very limited, then
22 counsel can talk and we can figure out whether there is
23 some way of dealing with it.

24 MR. TAYLOR: We'll try our best.

25 MR. SHEPHERD: Is that okay?

26 MS. ABI-RASHED: Can I just comment about the load
27 forecast?

28 MR. SHEPHERD: Sure.

1 MS. ABI-RASHED: In our evidence, we have updated the
2 load forecast with May numbers -- with May 2010 numbers.
3 Is that correct? Is that --

4 Now, I want to explore the --

5 MR. SHEPHERD: That's great. Then you don't need to
6 do that.

7 MS. ABI-RASHED: That's what I wanted to explore, is
8 the load part of it. If I could...

9 MR. SHEPHERD: That's okay. If it is in there, we
10 will find it. It is in your IR responses, right?

11 MS. REFFLE: I believe the information that was
12 provided was just a January to May projection. It was not
13 a full-year 2010 reforecast of the load.

14 MR. HARPER: I think, Jay, if you look at their
15 written responses to the VECC technical conference
16 questions, in the first one, they give actual wholesale
17 purchases, January to May 2010.

18 MS. REFFLE: Yes.

19 MR. SHEPHERD: All right. And compared it to
20 predicted? Oh, okay.

21 No. Hang on. What number is it?

22 MR. AIKEN: Second page.

23 MR. SHEPHERD: All right.

24 So do you have a new forecast for 2010 now?

25 MS. REFFLE: For the load? Is that what you are
26 referring to?

27 MR. SHEPHERD: Yes.

28 MS. REFFLE: No, we don't.

1 MR. SHEPHERD: Okay. Anyway, so then just OM&A and
2 capital. That's fine.

3 MR. MATHER: Undertaking JT1.7.

4 **UNDERTAKING NO. JT1.7: TO PROVIDE FULL YEAR FORECAST**

5 MR. SHEPHERD: And that is four plus eight OM&A and
6 capital.

7 Now, let me ask you to go to, still in SEC 18, but now
8 I am looking at sub C.

9 You have included a number of attachments, which are
10 PowerPoints relating to a presentation that you did to the
11 shareholder in May. So these three presentations that you
12 provided, are they all the presentations that were made at
13 that meeting?

14 MR. SANDERSON: Yes. Yes, that's correct.

15 MR. SHEPHERD: Thank you. And that was you, Mr.
16 Sanderson, that made those presentations?

17 MR. SANDERSON: I made two, and our director of
18 engineering of ServeCo made one as well.

19 MR. SHEPHERD: Okay, thank you.

20 So let me then ask you to go to SEC 22.

21 So what I would like you to tell me, if you could,
22 please, is what action has management of the utility taken
23 to seek to renegotiate these notes that are above the
24 current market rate, or replace them, if you could.

25 [Witness panel confers]

26 MS. ABI-RASHED: I'm sorry. I need a break.

27 MR. SHEPHERD: Okay.

28 MS. ABI-RASHED: Just a two-minute break.

1 [A Brief Recess]

2 MR. SHEPHERD: Sure.

3 MS. ABI-RASHED: Thank you. I remember the question.

4 MR. SHEPHERD: I don't.

5 MS. ABI-RASHED: Oh, okay.

6 MR. HARPER: You can say whatever you want.

7 MS. ABI-RASHED: I think you were asking, Jay, about
8 what work we have done with the shareholder to talk about
9 renegotiating the debt. And --

10 MR. SHEPHERD: Or replacing it.

11 MS. ABI-RASHED: Or replacing the debt.

12 We are in conversations with the municipality. They
13 would want us to preserve the notes as they are. And so
14 that is where our goal is, an objective.

15 MR. SHEPHERD: I don't understand. They want to
16 preserve the notes, so they want to be your lender? They
17 want to continue to be your lender, but they don't want you
18 to change the interest rate?

19 MS. ABI-RASHED: Yes. Where possible within -- yes.

20 MR. SHEPHERD: So I don't understand. What is your
21 goal or objective, then?

22 MS. ABI-RASHED: That would be the --

23 [Witness panel confers]

24 MS. ABI-RASHED: I mean, to be clear, they don't want
25 to -- they would like to continue to hold on to the
26 promissory note and they don't want to adjust the interest
27 rate.

28 MR. SHEPHERD: Okay. So you have tried to convince

1 them and failed?

2 MS. ABI-RASHED: Yes.

3 MR. SHEPHERD: Okay. You have a phrase here that
4 says: "particularly when the existing notes cannot be
5 replaced." What does that mean?

6 MS. ABI-RASHED: The municipalities are not allowed to
7 invest. They are limited by their investments, through the
8 -- the only time they are allowed is through the transfer
9 of the assets. They are allowed to invest and borrow
10 money, and if there's -- they're not able to reinvest nor
11 are they, if they forego the interest, would be able to --

12 MR. TAYLOR: Can I assist, because this is really a
13 legal issue?

14 I think what Ramona is talking about is there is a
15 regulation to the Municipal Act, eligible expenditures, and
16 under that regulation municipalities were allowed to loan
17 money to LDCs when they corporatized.

18 However, now they are not allowed to loan any money
19 beyond what is currently -- or has been loaned to the
20 utility as of the previous day, is what it says. So, in
21 other words, if they were to pay back the loan today, in
22 three days they would not be able to loan more money to the
23 LDC or any more money than the LDC has outstanding with the
24 municipality.

25 So if they were to shrink down from 10 million to
26 2 million, the only amount the municipality would be able
27 to loan to the LDC going forward would be 2 million.

28 So the municipalities have motivation to maintain

1 their current levels of debt with the utilities.

2 MR. SHEPHERD: Because once you lose it, it's gone?

3 MR. TAYLOR: It's gone.

4 MR. SHEPHERD: I get it. I understand that. But
5 there are other utilities who have done that; right?
6 Toronto just recently has arranged to repay all of its
7 debt; right?

8 MR. TAYLOR: I don't know.

9 MR. SHEPHERD: So I guess I would have thought that
10 the city, rather than overcharge on interest, would be
11 interested in readjusting their rate, which they can do
12 under that regulation; right?

13 MR. TAYLOR: Yes, they can.

14 MR. SHEPHERD: Okay. But they haven't shown any
15 interest in doing that. They still want the high rate;
16 right?

17 MS. ABI-RASHED: That's correct.

18 MR. SHEPHERD: The other question about that that I
19 have is you commented that the point of this was to provide
20 long-term financial stability to the utility. Do you see
21 that? It is on page 11, in the first paragraph of the
22 response to 22.

23 MS. ABI-RASHED: Yes.

24 MR. SHEPHERD: So I am not sure I understand where the
25 stability comes from. Some of these notes are callable on
26 60 days; right? The utility can ask for their money back
27 on 60 days' notice -- or, sorry, the shareholder, rather?

28 MS. ABI-RASHED: That's correct.

1 MR. SHEPHERD: And the other one, the \$20 million one,
2 they can ask for it back on 12 months' notice; right?

3 MS. ABI-RASHED: That's correct.

4 MR. SHEPHERD: So is there some other agreement or
5 something in place that gives you stability as a utility?

6 [Witness panel confers]

7 MS. ABI-RASHED: It is the municipality's intention to
8 hold on to the notes as long as they can. So from that
9 point of view, it is a long-term stability.

10 MR. SHEPHERD: There is no document -- like, from the
11 utility's point of view, you have no guarantee of that.
12 They can change their mind tomorrow?

13 MS. ABI-RASHED: They could, with notice. But it is
14 our -- their intention is to hold on to the note as long as
15 they can.

16 MR. SHEPHERD: All right. I wonder if you could turn
17 to page 10 of your December 31st, 2009 financial
18 statements?

19 MR. TAYLOR: What page is that on in the evidence?

20 MR. SHEPHERD: It is appendix -- it is an attachment
21 to 18(b); SEC 18(b).

22 MR. TAYLOR: Thank you.

23 MR. SHEPHERD: Do you have that?

24 MS. ABI-RASHED: Yes. I have it, Jay.

25 MR. SHEPHERD: Okay. So you've got the first two
26 notes -- this is a list of the debt owing to the city;
27 right?

28 MS. ABI-RASHED: Pardon me -- yes, yes.

1 MR. SHEPHERD: This is the list of the debt owing to
2 the city; right?

3 MS. ABI-RASHED: Yes.

4 MR. SHEPHERD: By the way, this debt is in Whitby
5 Hydro Electric Corporation; right?

6 MS. ABI-RASHED: Yes.

7 MR. SHEPHERD: So it is the corporation that owes the
8 money. It is not Services. So everything else flows
9 through Services, but the debt doesn't. It's direct;
10 right?

11 MS. ABI-RASHED: That's correct.

12 MR. SHEPHERD: So these first two notes, the 60-day
13 notes, total about 6-1/2-million dollars; right?

14 MS. ABI-RASHED: Correct.

15 MR. SHEPHERD: You said here for both of them, you
16 say:

17 "The Town of Whitby will not be calling this note
18 before January 1, 2011."

19 So this was written early in 2010, so it is more than
20 60 days from the end of the year. So presumably you have
21 some sort of document that backs that up, because you
22 wouldn't be able to put it in an audited financial
23 statement unless you have documentary evidence; right?

24 MS. ABI-RASHED: That's correct.

25 MR. SHEPHERD: What is the document you have?

26 MS. ABI-RASHED: A letter from the town treasurer
27 stating they are not going to call the notes in the next 12
28 months.

1 MR. SHEPHERD: Okay. Have you been getting that every
2 year?

3 MS. ABI-RASHED: Yes.

4 MR. SHEPHERD: So that you can put the note in your
5 financials?

6 MS. ABI-RASHED: Yes, and, as well, so we can classify
7 it as a long-term liability versus a short-term liability.

8 MR. SHEPHERD: Okay. So can you undertake to file
9 that letter, please?

10 MS. ABI-RASHED: Yes.

11 MR. MATHER: That would be JT1.8.

12 MR. TAYLOR: Hold on one sec, please.

13 [Counsel confers with witness panel]

14 MR. TAYLOR: I am just checking to see if there is
15 anything else in the letter that is addressed.

16 MS. ABI-RASHED: You know what? If I could just add
17 to that, in order for these to be classified this way, our
18 auditors would have had to have had the proof that there
19 was not going to be anything that is going to be called
20 within 12 months. So as a result, that's why they're
21 identified like that.

22 So I think the fact that they're classified here is
23 your evidence that they're not going to be called in a
24 year.

25 MR. SHEPHERD: No, the Board can't delegate to your
26 auditors decisions like that.

27 And so if there is a piece of evidence that shows that
28 they will not be called within 12 months, we are entitled

1 to see it.

2 MR. TAYLOR: No, no. I don't think she's saying their
3 auditor can make that decision. I think what she's saying
4 is that her auditor has seen the evidence and, as a result
5 of seeing that evidence, has been able to conclude in the
6 audited financial statement that, in fact, the
7 circumstances described are true.

8 So what is it you're -- what is it you are looking
9 for? For a letter to have a different date or to say
10 otherwise?

11 MR. SHEPHERD: There is evidence of a fact that is
12 relevant to this proceeding. We are entitled to have that
13 evidence put on the record.

14 MR. TAYLOR: I understand that. I am asking why.

15 MR. SHEPHERD: I am asking for that piece of evidence.
16 This is a fact that is relevant to this proceeding. I am
17 asking for the backup evidence that shows that.

18 MR. SPEAKER: Well, in light of the fact that the -- I
19 am going to answer for you. In light of the fact that the
20 auditor included that fact in an audited financial
21 statement, I think that it would be reasonable to accept
22 that fact as true, and we are going to decline that
23 request.

24 MR. SHEPHERD: On the basis of relevance or
25 materiality?

26 MR. TAYLOR: Relevance.

27 MR. SHEPHERD: Thank you.

28 Now I wonder if you could turn to SEC 23. I am going

1 to ask you to look at page 17 of your responses, which is
2 part of that answer.

3 You will agree, won't you, that this revenue
4 requirement work form does not update the cost of debt;
5 true?

6 MS. REFFLE: I believe that schedule is only updated
7 on the basis of part (a), which indicated the 9.85 figure.

8 MR. SHEPHERD: Let me just back up a second. Page 17,
9 you will agree that this doesn't update the cost of debt,
10 right? Yes? No?

11 MS. REFFLE: That's right.

12 MR. SHEPHERD: Okay. Thank you. Is there in the
13 evidence somewhere this document with that updated, the
14 whole revenue requirement work form with that update
15 included?

16 MS. REFFLE: To my best recollection, there is not.

17 MR. SHEPHERD: Can you undertake to provide that,
18 please?

19 MS. REFFLE: Yes, we can.

20 MR. MATHER: That, then, will be JT1.8.

21 **UNDERTAKING NO. JT1.8: TO PROVIDE UPDATED REVENUE**
22 **REQUIREMENT WORK FORM INCLUDING COST OF DEBT.**

23 MR. SHEPHERD: Thank you.

24 MS. REFFLE: Is the intent to get -- just as
25 clarification, is the intent to get this on the basis of
26 the latest updates indicated in Board Staff No. 35?

27 MR. SHEPHERD: Yes. I am looking for a revenue
28 requirement work form that is completely up-to-date as of

1 today.

2 MS. REFFLE: Okay.

3 MR. SHEPHERD: You have all that information.

4 MS. REFFLE: Yes.

5 MR. SHEPHERD: And I know bits and pieces of it are
6 all over the place, but this will tell us exactly what the
7 numbers are.

8 MS. REFFLE: That's fine. I just wanted to clarify
9 that it wasn't just this particular form updated. It was
10 in fact the most recent Board Staff 35 agreed-to updates.
11 Okay.

12 MR. SHEPHERD: Okay. Thanks. Move back for a second
13 to SEC 17, please.

14 So we asked you -- you hired this person, Burman, to
15 do an analysis of your CDM stuff.

16 And we asked you: So what edits or comments on the
17 drafts did you provide? And you have refused to tell us
18 those.

19 MS. ABI-RASHED: Sorry, Jay? What was that reference,
20 if you don't mind?

21 MR. SHEPHERD: SEC 17.

22 MS. ABI-RASHED: SEC 17.

23 MS. REFFLE: Is that the supplementary questions?

24 MR. SHEPHERD: Yes, of course. All of my questions
25 are supplementary unless I say otherwise.

26 MS. REFFLE: No. 17, you said?

27 MR. SHEPHERD: Yes.

28 MS. REFFLE: I think as we referenced in the response

1 to 17, our response still stands.

2 MR. SHEPHERD: Okay. So the response in 39B was: We
3 are not going to tell you what edits or comments on the
4 drafts we provided.

5 MS. REFFLE: That's correct.

6 MR. SHEPHERD: Okay. So what I want to know, then,
7 is, did you -- without telling me the details -- did you
8 provide any direction to Burman with respect to what his
9 conclusions should be? Did you make any suggestions as to
10 what his conclusions should be on any issue in his report?

11 MS. REFFLE: Our response stands.

12 MR. SHEPHERD: So you won't tell us with a whether you
13 gave him any guidance?

14 MR. TAYLOR: One second.

15 [Counsel confers with witness panel]

16 MS. REFFLE: With respect to the work on the report,
17 we worked with Burman on this particular report, so there
18 was interaction back and forth.

19 But we would say that in no way did we provide any
20 information that would influence or suggest, make
21 suggestions to him in terms of his findings and conclusions
22 in the report.

23 MR. SHEPHERD: So you didn't provide any edits or
24 comments on his drafts?

25 MS. REFFLE: The only comments that we would have
26 provided would be to ensure the accuracy of the data that
27 was in the report.

28 MR. SHEPHERD: So if you disagreed with something he

1 said in the report, you would say that in your edit, right?

2 MS. REFFLE: If it was an accuracy issue, yes.

3 MR. SHEPHERD: Okay. So then I am going to repeat the
4 question, then.

5 I would like to know what precisely you edited or
6 changed or suggested that he change in his report.

7 MR. TAYLOR: They're not answering that question.

8 MR. SHEPHERD: Thank you. Now, let me move to SEC 24.
9 And at the end of that answer -- this is about the
10 eligibility of shareholder-funded programs for LRAM, right?
11 And you are claiming that your LRAM should include
12 shareholder-funded programs?

13 MS. REFFLE: That's correct.

14 MR. SHEPHERD: And this is not third tranche and it is
15 not OPA-funded. This is the shareholders spent their own
16 money because they wanted to?

17 MS. REFFLE: That's correct.

18 MR. SHEPHERD: But you are claiming LRAM for it?

19 MS. REFFLE: That's correct.

20 MR. SHEPHERD: And you say at the end of this answer
21 that one of the reasons why that is okay is because Burman
22 provided an opinion that it is okay?

23 MS. REFFLE: That's correct.

24 MR. SHEPHERD: All right. What discussions did you
25 have with Burman about that opinion?

26 MS. REFFLE: We -- essentially, we asked him if he
27 would do his own investigation in terms of the guidelines
28 that were available, and to make an assessment as to

1 whether or not we should include it in our application.

2 MR. SHEPHERD: So you told him: We would like to
3 include this. Tell us whether we can?

4 MS. REFFLE: Yes. That's basically correct.

5 MR. SHEPHERD: And his initial conclusion was: Yes,
6 of course you can? Or his initial conclusion was: I'm not
7 sure?

8 MS. REFFLE: No. He did his research and came up with
9 the conclusion.

10 MR. SHEPHERD: So after your initial instruction, you
11 had no discussion with him about it?

12 MS. REFFLE: Other than the normal course of
13 discussion you would have if you had any specific
14 questions. However, we instructed him to refer to the
15 guidelines and any precedents and any -- use his best
16 judgment as to whether or not it was appropriate for us to
17 include in the application.

18 MR. SHEPHERD: I am moving on to SEC 27.

19 You talked in your evidence -- sorry, in your response
20 to VECC 15, the original 15, about a three-year plan.

21 When we asked: Please provide the three-year plan,
22 you said: Well, there is no document.

23 How is that three-year plan, then, communicated? Is
24 there like a PowerPoint? Is there a spreadsheet? How is
25 that communicated to -- as part of the budgeting process?

26 [Witness panel confers]

27 MR. SANDERSON: The plan really was discussions
28 amongst the operations staff and the staff that operate the

1 GIS system.

2 And we felt internally that \$120,000 was too much to
3 be spending in that area in one year, and we felt that to
4 soften the impact of the expenditure that we would do it
5 over a three-year period. Plus it would allow the work to
6 be done in a systemic approach. It would be too much work
7 to be done in one calendar year, in any event. So we
8 spaced over three years. There was no real documents. It
9 was just general discussion amongst staff.

10 MR. SHEPHERD: So it is not a plan in the sense that I
11 would think of a plan, as sort of something formal?

12 MR. SANDERSON: That's correct.

13 MR. SHEPHERD: It was answer intention?

14 MR. SANDERSON: An intention, I suppose.

15 MR. SHEPHERD: Okay. That's fair. This relates to
16 the GIS?

17 MR. SANDERSON: Yes. The GIS with all of the maps,
18 the system maps for the control room, and the SCADA
19 operations.

20 MR. SHEPHERD: So you could have put it all into the
21 test year but, instead, you spread it over '10, '11 and
22 '12?

23 MR. SANDERSON: I think the amount of work that was
24 required to be done was a lot to be undertaken in one year,
25 so we decided to space it out over a three-year period.

26 MR. SHEPHERD: What CCA class is this?

27 MS. ABI-RASHED: I would have to check. I don't know
28 off the top of my head.

1 MR. SHEPHERD: It is 100 percent write-off in the
2 first year for software; right?

3 MS. ABI-RASHED: I would have to verify that.

4 MR. SHEPHERD: Well, I wonder if you could undertake
5 to provide that, and also to provide the revenue
6 requirement impact in the test year on both the rate base
7 side and the tax side of the decision to not put it in one
8 year, but to put it in three years?

9 MS. ABI-RASHED: I am trying to understand what you
10 are --

11 MR. SHEPHERD: When you put software into rate base,
12 in the first year it actually decreases your revenue
13 requirement. So the more you put in, the lower your
14 revenue requirement because of the fast write-off under
15 CCA; true?

16 MS. ABI-RASHED: I am... I could check the CCA right
17 for you now if you want to wait.

18 MR. SHEPHERD: I would actually like you to actually
19 calculate the revenue requirement impact of the decision.
20 What is the difference in the test year revenue requirement
21 between putting it all in the test year and spreading it
22 over three years?

23 MR. TAYLOR: What is troubling about this is that they
24 have already explained that they decided on an operational
25 basis to spread it out over three years.

26 I think it seems pretty apparent that this wasn't a
27 strategy to maximize or increase their revenue requirement
28 or avoid a decrease in their revenue requirement through

1 tax planning.

2 So given that it was done for operational reasons,
3 even if you were to prove that perhaps revenue requirement
4 would be lower if they were to include it all in the test
5 year, do you propose to argue that it should all be
6 included in the test year?

7 MR. SHEPHERD: Well, see, right now we are only in a
8 technical conference, so I am just trying to get the data
9 on the table. Once I know what the impact is, then in the
10 hearing I can cross-examine on the assertion that it was
11 all operational.

12 MR. TAYLOR: Yes.

13 MR. SHEPHERD: If there is a material tax benefit,
14 then it is legitimate for me to follow up whether that tax
15 benefit was part of the analysis.

16 MR. TAYLOR: But why don't you ask if the tax benefit
17 was part of their analysis?

18 MR. SHEPHERD: Because I am going to do that in the
19 hearing. Right now I am gathering data. There is a piece
20 of data that we need -- that the Board needs to understand
21 what the impact of this decision was. Maybe it is not
22 material. If it is not material, that's fine. You will
23 tell us.

24 MR. TAYLOR: But at some point, I think we have to
25 draw the line in terms of how much information you are
26 asking. And I feel that we are -- we have stepped way over
27 the line, especially given these circumstances, that
28 they're going to tell you if you ask them right now, that

1 this was not a tax planning strategy.

2 MR. SHEPHERD: But I am entitled to explore that,
3 knowing the facts. And so I want to know the facts first.

4 One of the facts is: What's the revenue requirement
5 impact?

6 MR. TAYLOR: But if you -- if you know what the
7 ultimate outcome is going to be of this fact-finding
8 mission, why do you need the facts?

9 MR. SHEPHERD: Because it has to be on the record. I
10 can't just say it. There has to be --

11 MR. TAYLOR: You can ask them right now if they have
12 spread the cost out over three years for tax planning
13 purposes or for operational purposes. If your concern is
14 they're not under oath, then maybe rather than conducting
15 an analysis, we could provide an affidavit saying that it
16 was for operational purposes.

17 MR. SHEPHERD: No. I will get that in the oral
18 hearing. That is not the problem. The problem is that
19 first, before I can ask questions about this, I have to
20 have evidence that there is a revenue requirement impact
21 and that it is unfavourable to the ratepayers.

22 The only people that can provide that are the company,
23 and so I am just asking them to provide a calculation which
24 they can do in a half an hour - it is not complicated - and
25 put it on the record.

26 MR. TAYLOR: Well, they're already conducting a number
27 of calculations, each of which might be a half an hour,
28 totalling 12 hours, but -- and I ask you, again, I

1 understand that you are gathering facts, but ultimately is
2 the goal -- if you were to find -- let's just say, for
3 argument's sake, if you were to find that there is a tax
4 advantage to the utility by spreading it out versus putting
5 it all in the test year, is the idea, then, to ask the
6 Board to give a ruling that they should do this project in
7 the test year?

8 MR. SHEPHERD: No.

9 MR. TAYLOR: What is the ultimate conclusion here?
10 What do you want to achieve from this line of questioning?
11 That is what I am asking you.

12 MR. SHEPHERD: Well, and the answer is, by knowing how
13 much the impact is -- if the impact is \$25,000, then we
14 know it wouldn't have influenced your decision. There is
15 not enough money to worry about in this context.

16 If the impact is \$500,000, then it would be a concern,
17 and then the Board might think, Well, this looks like it is
18 part of the analysis.

19 I mean, can you estimate how big it is? Can you tell
20 me whether it is big or small?

21 MS. ABI-RASHED: The expenditure is \$120,000 in total.

22 MR. SHEPHERD: Hmm-hmm, okay. So the impact, then, in
23 the test year is, what, 40? In that range; right?

24 MS. ABI-RASHED: Pardon?

25 MR. SHEPHERD: In that range? For a full write-off,
26 it is about 40, and then you gross it up, so it will be
27 about 60?

28 MS. ABI-RASHED: I'd have to do the crunching.

1 MR. SHEPHERD: Am I in the ballpark?

2 MR. TAYLOR: Just ballpark is fine.

3 MS. ABI-RASHED: It is fine, yes.

4 MR. SHEPHERD: Okay, thank you.

5 MR. TAYLOR: Do we have an undertaking or not?

6 MR. SHEPHERD: We don't need one, then. That's fine.

7 The precision is not relevant when you are talking about 40
8 or 60,000.

9 Can you turn to SEC 29, please? What we asked you to
10 do with respect to VECC No. 30 was provide us the table
11 without netting out inflation. And so the table you gave
12 us still says net of inflation, and so I just don't
13 understand.

14 MS. ABI-RASHED: Then that is a mistake. It is with
15 inflation.

16 MR. SHEPHERD: That "net of inflation" should be out
17 of there?

18 MS. ABI-RASHED: Yes.

19 MR. SHEPHERD: So these numbers, the US of A numbers
20 for each of the years, these are the actuals?

21 MS. ABI-RASHED: That's correct.

22 MR. SHEPHERD: Or in the case of 2010, it is the
23 forecast?

24 MS. ABI-RASHED: That's correct.

25 MR. SHEPHERD: But with no adjustments for inflation?

26 MS. ABI-RASHED: Right.

27 MR. SHEPHERD: Perfect, okay.

28 So what this appears to show is that this category --

1 or these categories, this set of categories, are increasing
2 38.5 percent from 2007 to 2010.

3 Can you help me with why that is necessary?

4 MS. ABI-RASHED: I think there was a response to --
5 let me find the response to that question that was posed by
6 VECC.

7 It is VECC question 30, and it is a description of why
8 the costs are going up. It discusses the different -- the
9 increasing requirements for external pressures from outside
10 agencies, and it outlines the various audits that have been
11 undertaken in the past five years.

12 MR. SHEPHERD: Well, okay, but I guess in VECC 30 you
13 suggested that your increase was something in the order of
14 less than 20 percent by adjusting for inflation. So you
15 explained the 20 percent increase there.

16 So we are asking you to explain now a 38.5 percent
17 increase over three years. And especially given that this
18 includes management salaries and that you did a management
19 restructuring, which I understood saved some money, I am
20 not sure I understand how that happened here.

21 MS. ABI-RASHED: I have to apologize. If you look at
22 that schedule, there is a formula error and the numbers
23 don't add.

24 MR. SHEPHERD: I don't understand.

25 MS. ABI-RASHED: If you are looking at the totals --

26 MR. SHEPHERD: Yes.

27 MS. ABI-RASHED: -- it seems to be omitting the last
28 line.

1 MR. SHEPHERD: That's not good.

2 MS. ABI-RASHED: No, it's not.

3 What I could do is recalculate the numbers, and later
4 this -- or shortly after this, we can look at the numbers
5 with the corrected versions. I apologize for that.

6 MR. SHEPHERD: No, I understand. Nonetheless, I do
7 have some other questions on this, so I will ask them
8 anyway.

9 So the actual increase was 29.8 percent, which still
10 seems higher than we would like.

11 But what I want to focus on is the category
12 "Management Salaries and Expenses."

13 MS. ABI-RASHED: Mm-hmm.

14 MR. SHEPHERD: This is just for accounting, right?
15 This is your accounting function?

16 MS. ABI-RASHED: No. That would not include just
17 accounting.

18 MR. SHEPHERD: So this is all of your management
19 salaries and expenses, right?

20 MS. ABI-RASHED: No. It would include -- it would
21 include executive salaries and expenses, because of the
22 number of employees in the executive and salaries category.
23 So it is grouped with the lower category.

24 MR. SHEPHERD: Okay. Good.

25 MS. ABI-RASHED: Okay?

26 MR. SHEPHERD: So I have that category going up from
27 667,000 to 914,000, according to your numbers, which is a
28 37 percent increase.

1 So how many people are in that category?

2 MS. ABI-RASHED: Pardon?

3 MR. SHEPHERD: How many people are in that category?

4 [Witness panel confers]

5 MR. MATHER: Are we waiting for a question or an
6 answer at the moment?

7 MS. ABI-RASHED: An answer.

8 MR. MATHER: An answer. Okay.

9 MS. ABI-RASHED: An answer.

10 I am thinking that this ties in with the allocation
11 questions that we are declining on, and that is where my
12 thoughts are at this point in time. But I would like to
13 consider it.

14 MR. SHEPHERD: Sorry. I want to know how many people
15 are in the management executive group, and you won't tell
16 me? That are being charged to the ratepayers? And you say
17 no, you don't have to tell the Board that? How on earth
18 could that be a secret?

19 MS. ABI-RASHED: Can I take an undertaking?

20 MR. SHEPHERD: You don't know how many people are in
21 management and executive?

22 MS. ABI-RASHED: I would like to provide it through an
23 undertaking.

24 MR. SHEPHERD: I am asking a question. You don't know
25 the answer?

26 MS. ABI-RASHED: And I am answering I would like to
27 take an undertaking to provide that.

28 MR. SHEPHERD: It is a yes/no question. Either you

1 know the answer or you don't. If you know the answer, I
2 want it. If you don't know the answer, you can say so.

3 [Counsel confers with witness panel]

4 MS. ABI-RASHED: The reason why I need to take an
5 undertaking is because there are portions of people that
6 are charged to this -- these accounts.

7 MR. SHEPHERD: I am not asking FTEs. I am asking how
8 many people. There are a certain number of people whose
9 salaries are included in there; that's how many I want to
10 know, that it is a number like five or six or seven.

11 So it is not that complicated.

12 MS. ABI-RASHED: No. Okay. There would be five.

13 MR. SHEPHERD: Five. And so -- but you haven't
14 allocated all of their salaries and expenses to this
15 category, because this is only the portion that is in the
16 Utility. There is another portion that is in ServeCo,
17 right?

18 MS. ABI-RASHED: That's correct.

19 MR. SHEPHERD: Let me ask you a couple of questions
20 about this. First, go back to VECC 30 in their original
21 responses. Here is what I don't understand. This VECC 30
22 is net of inflation and SEC 29 is the actuals, but the
23 auditor costs appear to be the same in both.

24 So how could the auditor costs be the same in actual
25 as in net of inflation? I don't understand that.

26 MS. ABI-RASHED: The auditor costs, what we have
27 incorporated in there are costs that are relating to the
28 changes in the scope of the audit.

1 MR. SHEPHERD: No, no. No, no. That is not what I am
2 asking. I am comparing the two charts; right?

3 MS. ABI-RASHED: Yes.

4 MR. SHEPHERD: So we have one chart that is net of
5 inflation, which means the numbers should be lower, and we
6 have another chart which is the actuals; that is, inflation
7 is back in. What I don't understand is: How could the
8 auditor costs be identical with and without inflation?
9 There is inflation; right?

10 MS. ABI-RASHED: We have not adjusted the auditor's
11 cost for inflation.

12 MR. SHEPHERD: So it is net of inflation except the
13 auditor costs?

14 MS. ABI-RASHED: That's correct.

15 MR. SHEPHERD: But then I look at general
16 administrative salaries and I look at the 429 for 2010, and
17 I am not sure I understand why that would be the -- oh, now
18 you have 479, so that does have inflation; right?

19 So that has \$50,000 of inflation in it; right?

20 MS. ABI-RASHED: Just a moment. I will find it. What
21 reference is that? In the supplementary, Jay, what is
22 the --

23 MR. SHEPHERD: VECC 30 is the one chart and SEC 29 is
24 the second chart.

25 MS. ABI-RASHED: Yes, okay. Yes. What was your
26 question again? Inflation?

27 MR. SHEPHERD: So net of inflation, the 2010 number
28 for G&A is 479 -- sorry, is 429. With inflation, it is

1 479. The difference is 50.

2 MS. ABI-RASHED: Hmm-hmm.

3 MR. SHEPHERD: Then in management salaries, you have,
4 net of inflation, 778 and with inflation is 914. The
5 difference is 136.

6 MS. ABI-RASHED: Hmm-hmm.

7 MR. SHEPHERD: I couldn't get the math to work. The
8 ratio should be the same. The inflation is the same every
9 year; right?

10 MS. ABI-RASHED: Well, the way this inflation is
11 calculated is since it goes back to the 2006 rates and what
12 the cost levels were then, every year it is extracted so we
13 know the pure costs of the additions, and that way you have
14 a cumulative inflation impact. That inflation impact you
15 see is a cumulative impact.

16 MR. SHEPHERD: No, I understand that, but it is the
17 same years. So if you have something that is 429 without
18 inflation and 479 with inflation, the ratio should be
19 identical to the ratio for management salaries. It is the
20 same inflation. It is math. I don't understand how the
21 ratio is different.

22 MS. ABI-RASHED: I will take an undertaking to explain
23 that to you.

24 MR. SHEPHERD: Thank you.

25 MR. MATHER: That will be --

26 MR. SHEPHERD: Just to assist you, what I see is that
27 your inflation adjustment for 5615 is 11.66 percent of the
28 lower number, and your inflation adjustment for 5610 is

1 17.48 percent.

2 If it is the same inflation for every year, I would
3 have thought that the percentage ratio should be the same.

4 MS. ABI-RASHED: Good question.

5 MR. SHEPHERD: Now, let me --

6 MR. MATHER: That is JT1.9.

7 **UNDERTAKING NO. JT1.9: TO PROVIDE EXPLANATION OF**
8 **DIFFERENCE BETWEEN AUDITOR COSTS IN SEC IR 29 AND VECC**
9 **IR 30.**

10 MR. SHEPHERD: So you agreed that the numbers in the
11 line 5610 are not the whole salaries and expenses of those
12 five people.

13 So can you tell me what percentage of their salaries
14 and expenses are being allocated to the utility?

15 MS. ABI-RASHED: I believe you have asked this
16 question in another form.

17 MR. SHEPHERD: Did you answer it?

18 MS. ABI-RASHED: We have provided a response, yes.

19 MR. SHEPHERD: Was the response, We are not answering?

20 MS. ABI-RASHED: I can't recall.

21 MR. SHEPHERD: So I am asking the question, then.

22 MR. MATHER: Jay, do you have an estimate of how much
23 longer you will be? This would be something they could
24 look up if we took a little break. We have been here an
25 hour and 35 minutes.

26 MR. SHEPHERD: Well, remembering that some of us have
27 to do something else at 3 o'clock --

28 MR. MATHER: Yes.

1 MR. SHEPHERD: -- I was hoping to be finished by then,
2 and then there would be a natural break at that time.

3 MR. MATHER: Is there time for an unnatural break in
4 the meantime?

5 MR. SHEPHERD: I then might not be finished by 3:00.
6 This is taking a lot longer than --

7 MR. MATHER: Is everybody is okay if we forge ahead,
8 then?

9 MR. TAYLOR: I would like to run to the washroom.

10 MR. MATHER: I think people have voted with their feet
11 on that. We will be back in five minutes.

12 --- Recess taken at 2:14 p.m.

13 --- Upon resuming at 2:18 p.m.

14 MS. ABI-RASHED: Jay, could you ask the question
15 again, please?

16 MR. SHEPHERD: Okay. What percentage of management
17 salaries and expenses, actual, is being allocated to the
18 utility, in each of these years?

19 MS. ABI-RASHED: Okay. Would that be the full-time
20 equivalent that you are looking for? I am just trying to
21 understand --

22 MR. SHEPHERD: No. You have a total amount you spend
23 on this category.

24 MS. ABI-RASHED: Yes.

25 MR. SHEPHERD: Some of it is not utility. Some of it
26 is utility. So I want know what percentage is utility and
27 what percentage is not utility.

28 MS. ABI-RASHED: I think that goes back to the same --

1 we will have to decline, respectfully, Jay.

2 MR. SHEPHERD: Okay.

3 Just following up on this, I looked at this and I
4 thought to myself: There is a document that is in
5 everybody's rate application that I didn't see in yours.
6 And the document -- I don't think it has an official name,
7 but what it is is a table that was prepared -- created by
8 the Board, that has for the last few years the headcount
9 for each of the five categories and the salaries, total
10 salaries for each of the categories and the total benefits.

11 Is that in your application somewhere?

12 MS. ABI-RASHED: No.

13 MR. SHEPHERD: Okay. So I would like you to undertake
14 to file that, please.

15 MS. ABI-RASHED: I think the schedule you are
16 referring to is -- let's just see. Is it 2-L?

17 Was it the schedule with respect to -- could you ask
18 that question, again, Jay?

19 MR. SHEPHERD: Yes. There is a standard document,
20 which I don't believe has a name. I just asked Neil what
21 the name of it was.

22 That's it.

23 MR. TAYLOR: Appendix 2-L of chapter two.

24 MS. ABI-RASHED: Okay.

25 MR. SHEPHERD: So can you undertake to file that,
26 please?

27 MS. ABI-RASHED: We would undertake to file it, based
28 on the individuals that we have identified, John

1 Sanderson's, the three officers, because they are the ones
2 who are identified as our employees.

3 MR. SHEPHERD: I want it for everybody, everybody who
4 is working on the Utility.

5 You are charging people to the utility. So the Board
6 says you have to file this if you are charging people to
7 the utility. Everybody else does it. I would like you to
8 do it, too.

9 [Counsel confers with witness panel]

10 MS. ABI-RASHED: Jay, we will undertake to meet this,
11 although it will take a bit of time.

12 MR. SHEPHERD: That's fine.

13 MR. MATHER: That will be JT1.10.

14 **UNDERTAKING NO. JT1.10: TO PROVIDE TABLE OF HEADCOUNT**
15 **AND TOTAL SALARIES AND BENEFITS FOR EACH OF THE FIVE**
16 **CATEGORIES.**

17 MR. SHEPHERD: Thank you.

18 So next is SEC 31, and I looked at VECC 33(a) and I
19 didn't see a rate-base calculation for WHES.

20 MS. ABI-RASHED: Just to confirm, it is Interrogatory
21 No. 31?

22 MR. SHEPHERD: Yes.

23 MS. ABI-RASHED: Okay.

24 [Witness panel confers]

25 MS. ABI-RASHED: We discussed this morning with --
26 Bill asked that question and it was clarified this morning,
27 Jay.

28 MR. SHEPHERD: Okay. Well, I must have missed it. He

1 talked about what things are in and what things are out,
2 but I didn't hear a number. Did you give him a number?

3 MS. ABI-RASHED: No, no.

4 MR. SHEPHERD: So can you give me a number, then,
5 please?

6 MS. ABI-RASHED: Yes.

7 MR. SHEPHERD: Calculated on a rate-base basis, how
8 much is the capital employed by the Service company in
9 providing services to the applicant. I want to be able to
10 then calculate what the deemed debt would be, et cetera,
11 the deemed equity, and compare that to the profits being
12 charged.

13 MS. ABI-RASHED: Okay. As discussed this morning,
14 that weighted average cost of capital is a proxy. And it
15 is not tied to ServeCo's assets.

16 MR. SHEPHERD: No, I understand that. But when the
17 Board determines how much profit is going to be included in
18 amounts paid to ServeCo, one of the things it is going to
19 need to know is: What's the calculation of these amounts,
20 if these assets were and the profit were in the utility?

21 So the only way to do that is to know what the rate
22 base equivalent is so you can do the math. Let me just
23 say, if it is a couple of hundred thousand dollars, then
24 you can just say so and we will leave it alone, because it
25 is negligible. But if it is anything material, then we
26 need to know how much it is.

27 [Counsel consults with witness panel.]

28 MS. ABI-RASHED: We will be declining this, as it goes

1 to the information in Services company.

2 MR. SHEPHERD: All right.

3 Then also on this point, do the amounts charged by
4 Services company to the utility include any amount for
5 depreciation on assets?

6 MS. ABI-RASHED: Yes. Under the vehicle, tools, there
7 is a component for depreciation.

8 MR. SHEPHERD: Okay. So can you provide a calculation
9 for how much is included in that charge that relates to
10 depreciation?

11 MS. ABI-RASHED: Yes. It is actually in one of the
12 responses to Energy Probe.

13 MR. SHEPHERD: Is it?

14 MS. ABI-RASHED: Yes. It would be in the second
15 round.

16 MR. SHEPHERD: Oh, I see it, okay. This is Energy
17 Probe 56. That's the answer?

18 MS. ABI-RASHED: Let me just double-check that. Yes,
19 that's correct.

20 MR. SHEPHERD: And you use five years for vehicles?

21 MS. ABI-RASHED: Pardon?

22 MR. SHEPHERD: You use five-year depreciation for
23 vehicles?

24 MS. ABI-RASHED: No.

25 MR. SHEPHERD: I have that. Just a second.

26 MS. ABI-RASHED: It varies. There is tools in there,
27 as well. So it varies from whatever the depreciation rates
28 are on the -- I think if we look at the continuity

1 schedule, you would be able to see the depreciation rates
2 there.

3 MR. SHEPHERD: Why don't you provide us with the
4 continuity schedule, then, so we can see it?

5 MS. ABI-RASHED: I am not sure what I am providing,
6 Jay.

7 MR. SHEPHERD: You just said if you look at the
8 continuity schedule. Okay, I would like to look at it.

9 MS. ABI-RASHED: The schedule I am referring to is the
10 one we filed as evidence with respect to the different
11 years of depreciation for the different classes. It
12 identifies, tools, communication equipment, transportation.

13 MR. SHEPHERD: I thought this was vehicles.

14 MS. ABI-RASHED: Pardon?

15 MR. SHEPHERD: Didn't you say this was vehicles?
16 We're talking about vehicles here.

17 MS. ABI-RASHED: Vehicle, tools. It is a vehicle,
18 tool category.

19 MR. SHEPHERD: Sorry. This says vehicles. It doesn't
20 say tools. Is it tools, too?

21 MS. ABI-RASHED: It is tools. I apologize if it is
22 not in the terminology.

23 MR. SHEPHERD: So what kind of tools would be in the
24 vehicle category?

25 MS. ABI-RASHED: The tools would be tools that
26 operations departments need to operate to conduct their
27 work.

28 MR. SHEPHERD: What is your threshold for whether an

1 asset is capitalized? What is the number?

2 MS. ABI-RASHED: Five hundred dollars.

3 MR. SHEPHERD: How much?

4 MS. ABI-RASHED: Five hundred dollars.

5 MR. SHEPHERD: Five hundred dollars. So anything
6 below \$500 is considered to be expensed?

7 MS. ABI-RASHED: That's correct.

8 MR. SHEPHERD: Anything above \$500 is in the tools
9 category?

10 MS. ABI-RASHED: That's correct.

11 MR. SHEPHERD: The tools category is five year or
12 three year? Let me refer you to page 236 of your prefiled
13 evidence.

14 MS. ABI-RASHED: Thank you.

15 MR. SHEPHERD: This shows that tools are a ten-year
16 life. Big transportation equipment, big vehicles, are
17 eight-year life. That is bucket trucks and things like
18 that, presumably. Smaller vehicles are five-year life.

19 MS. ABI-RASHED: Okay, yes.

20 MR. SHEPHERD: And that is what is applied in ServeCo?

21 MS. ABI-RASHED: That's correct.

22 MR. SHEPHERD: Same rates?

23 MS. ABI-RASHED: Yes.

24 MR. SHEPHERD: Like, these are the rates for the
25 utility, right, but the utility doesn't own any of those
26 things; right?

27 MS. ABI-RASHED: That's correct.

28 MR. SHEPHERD: But ServeCo charges that?

1 MS. ABI-RASHED: That's correct.

2 MR. SHEPHERD: Okay. So then this calculation here of
3 \$109,500 for depreciation for vehicles, which I assume
4 includes tools, is for about \$800,000 of assets, right,
5 roughly?

6 MS. ABI-RASHED: I would have to verify that, but...

7 MR. SHEPHERD: Well, maybe you could just break down
8 this 109,500 into those three categories, 1930 big, 1930
9 small and 1940. Could you do that?

10 MS. ABI-RASHED: May I ask what you are trying to
11 derive?

12 MR. SHEPHERD: I am trying to find out whether ServeCo
13 is getting yet another indirect benefit from this
14 structure.

15 MS. ABI-RASHED: With respect to? I am just trying to
16 understand just the question.

17 MR. SHEPHERD: You are charging depreciation. You
18 won't tell us what assets you are charging it on. You
19 won't give us the information, but you are charging the
20 depreciation. So I am trying to work back the depreciation
21 number.

22 You want the ratepayers to pay it. We are entitled to
23 see where it came from.

24 MS. ABI-RASHED: Jay, are you just looking to see the
25 depreciation by asset class?

26 MR. SHEPHERD: Yes.

27 MS. ABI-RASHED: And the reason for that would be?

28 MR. SHEPHERD: Because then I can work backwards to

1 see what your undepreciated -- what your net book value of
2 each asset class is, and then I can calculate the return
3 and the debt. And since you are charging the depreciation
4 expense, that allows me to ask what it is a depreciation
5 expense on. If you don't want to charge it, then I have a
6 harder time asking the question.

7 [Counsel confers with witness panel]

8 MS. ABI-RASHED: We will have to decline that.

9 MR. HARPER: Jay, could I -- actually, because in
10 listening to this and reflecting back on one of the
11 responses you gave to one of my questions, I thought I
12 understood something and now maybe you can help me clarify
13 it.

14 It goes back to KT1.1, question 9. And there, because
15 that was making reference to Energy Probe 64(c) where you
16 had broken down the total -- the total charge and shown a
17 depreciation amount of \$53,000.

18 MS. ABI-RASHED: Yes.

19 MR. HARPER: When I asked you what that was for, you
20 said that was strictly for tools.

21 MS. ABI-RASHED: Tools and vehicles, too.

22 MR. HARPER: No, because actually the response to the
23 IR response, written response said tools, measuring and
24 testing equipment and communication equipment. It
25 specifically did not include vehicles, and that is where I
26 was getting confused given the conversation you were just
27 having with Mr. Shepherd.

28 MS. ABI-RASHED: I apologize. There is a portion

1 there for vehicles, too.

2 MR. HARPER: If I take that 53, and then if you go
3 over to the response to the one we were looking at there,
4 which was Energy Probe 56, which is showing, I guess a
5 total depreciation charge of 116,000. Well, roughly -- I
6 understand roughly half the costs go to capital and half
7 the costs go to OM&A. So the 53 that we are talking about
8 in the 64C is the OM&A portion, which is close to or
9 approximately half of the 116.

10 We are out a little bit, but that is how the numbers
11 would roughly reconcile, would they?

12 MS. ABI-RASHED: Yes, that's correct.

13 MR. HARPER: Okay. Thank you very much.

14 MS. ABI-RASHED: You're welcome.

15 MR. SHEPHERD: I want to turn next -- somebody turned
16 me off.

17 I wonder if you could turn to SEC 36, please. Do you
18 have that?

19 MS. ABI-RASHED: Mm-hmm. Yes. Yes.

20 MR. SHEPHERD: My only question on this is: These OPA
21 programs are actually -- the work is actually done in
22 ServeCo, right?

23 MS. ABI-RASHED: I'm sorry, Jay, we've got the wrong
24 reference here.

25 MR. SHEPHERD: 36, SEC 36.

26 MS. REFFLE: Oh, we've got the earlier version.

27 MR. SHEPHERD: Supplementaries.

28 MS. ABI-RASHED: We found it.

1 MR. SHEPHERD: All right.

2 So if I understand this correctly, you have people in
3 ServeCo that carry out these non-Utility operations,
4 primarily OPA, CDM programs, right?

5 MS. REFFLE: That's correct.

6 MR. SHEPHERD: That's then billed to the Utility and
7 then the Utility excludes it for ratemaking purposes; is
8 that right?

9 MS. REFFLE: That's correct.

10 MR. SHEPHERD: Why?

11 MS. REFFLE: Because it's a non-Utility activity.

12 MR. SHEPHERD: No. But if it is non-Utility and it is
13 already being done in the affiliate, why don't you just
14 leave it there?

15 MS. REFFLE: Because the OPA programs have been
16 undertaken by Whitby Hydro Electric Corporation.

17 MR. SHEPHERD: Why?

18 MS. REFFLE: Because it was a transition from the
19 third tranche, and it was a decision that was made by the
20 corporation.

21 MR. SHEPHERD: Is the amount that is being charged by
22 ServeCo and the amount of revenues applied to the Utility,
23 are they identical to the amounts that are being excluded
24 for non-Utility purposes?

25 Just on the one side of the equation, the expenses,
26 right? Let's say you charge a million dollars from ServeCo
27 to Utility for these programs. Is that same, a million
28 dollars, exactly what is then moved over to non-Utility?

1 MS. REFFLE: Are you saying in terms of the dollar
2 values that show up in those accounts, are they strictly
3 charges from ServeCo?

4 MR. SHEPHERD: Is it an exactly mirror image between
5 what ServeCo charges to do those programs and what is
6 excluded for regulatory -- for -- as non-Utility in the
7 Utility?

8 MS. ABI-RASHED: I think we are having problems
9 understanding you.

10 MS. REFFLE: Yes, sorry, I'm not sure I fully
11 understand.

12 MR. SHEPHERD: Let me go at it a different way. The
13 Utility isn't actually doing this stuff; it is actually
14 being done by ServeCo, right?

15 MS. REFFLE: Mm-hmm.

16 MR. SHEPHERD: So if you just left it in ServeCo, then
17 the Utility wouldn't be charged for any of that work and
18 you wouldn't have to exclude any non-Utility.

19 I am asking: The way you are doing it, does it
20 produce exactly the same result?

21 No, it doesn't.

22 MS. ABI-RASHED: Are you saying that -- are you trying
23 to see if there's some net incremental cost to WiresCo as a
24 result of the --

25 MR. SHEPHERD: Cost or benefit.

26 MS. ABI-RASHED: And is that included in rates? Is
27 that what you are asking? I don't -- none of this is
28 included in rates, as well as the revenues received from

1 the OPA. Those are excluded as well. So I am a little --

2 MR. SHEPHERD: No, I understand that. But the way you
3 do it is not to simply never count it in the first place,
4 right?

5 The way you do it is ServeCo bills the Utility for
6 this work. The Utility, then, in calculating its costs for
7 rate purposes, excludes the costs of doing this work and
8 the revenues, right?

9 MS. REFFLE: That's right.

10 MR. SHEPHERD: So it is a two-stage process. I want
11 to know whether the net result of that two-stage process is
12 the same as if the Utility never saw any of it at all.

13 MS. REFFLE: I would suggest that it is not. They're
14 sort of performance bonuses, or -- I am not sure if I am
15 using the right terminology, but in the OPA programs
16 there's an opportunity to retain some income there.

17 So the electric company, Whitby Hydro Electric Company
18 is able to retain some non-Utility-related income.

19 MR. SHEPHERD: That doesn't go to the rate part of
20 the --

21 MS. REFFLE: Sorry. It doesn't go to the rates,
22 you're right. But --

23 MR. SHEPHERD: So from a rate point of view --

24 MS. REFFLE: From a rate point of view --

25 MS. ABI-RASHED: I'm sorry, I don't follow it.

26 MR. SHEPHERD: Go ahead.

27 MR. HARPER: Maybe the easiest way -- if you turn up
28 your application, page 194, if you want to keep your finger

1 in that and also turn up response to VECC Interrogatory 25.

2 MS. REFFLE: Sorry, VECC No. what?

3 MR. HARPER: No. 25, the No. 25. It is a very short
4 answer.

5 MS. REFFLE: Okay.

6 MR. HARPER: But I think it helps to confirm part of
7 what we're talking about here.

8 If you look at page 194 of the evidence, the very top
9 two lines of that table, you have revenues from non-Utility
10 operations of about 986,000. And costs of about 944.

11 MS. REFFLE: Sorry, can you repeat that?

12 MR. HARPER: If you go to page 194 of your original
13 application.

14 MS. REFFLE: Right.

15 MR. HARPER: The top two lines on that table there is
16 revenues from non-Utility operations and expenses for non-
17 Utility operations. And for 2010 the revenues are 986.7,
18 and the expenses are 944.6.

19 MS. REFFLE: Correct.

20 MR. HARPER: If I understand from VECC 25, the only
21 thing -- that is entirely all OPA programs and all OPA
22 expenses?

23 MS. REFFLE: That's correct.

24 MR. HARPER: The if I go down to the bottom of the
25 table, what you have done for purposes of the revenue
26 requirement is fully excluded both the 986.7 and the 944.6
27 from the determination of your revenue offsets.

28 MS. REFFLE: Yes. Correct.

1 MR. HARPER: So it is as if they were never there to
2 begin with?

3 MS. REFFLE: Yes.

4 MR. SHEPHERD: Well, and of course that is what I am
5 trying to explore.

6 MS. REFFLE: Okay. Sorry.

7 MR. SHEPHERD: That's exactly where I am going.
8 Because this 4380, this account 4380, US of A 4380, that is
9 actually billed to you from ServeCo, right?

10 MS. REFFLE: I would -- it is not in its entirety.
11 There are direct costs to Whitby Hydro Electric as well.

12 MR. SHEPHERD: Do we have a breakdown of that
13 somewhere?

14 MS. REFFLE: I don't believe there's a breakdown that
15 has been filed in evidence.

16 MR. SHEPHERD: What I am trying to determine is
17 whether your costs to have ServeCo do this -- especially
18 considering ServeCo has mark-ups -- whether your cost is
19 more than this 944, your actual cost.

20 So I am trying to figure out whether ServeCo is
21 sending you a separate bill that only applies to this, that
22 you then pay, so that it is easy to follow, or whether this
23 is part of the ongoing calculation and allocation, in which
24 case we have to be able to track it down and see what you
25 are paying for for that, to see whether you are really
26 allocating the correct amount.

27 MS. REFFLE: There is no impact to rates, though;
28 correct? I am just not sure --

1 MR. SHEPHERD: There is if what you are actually
2 paying ServeCo is more than 944, and you are only charging
3 944 to this account. Then there is an impact to rates.

4 MR. AIKEN: Why?

5 MR. SHEPHERD: Well, because that other -- the rest of
6 it has to be charged somewhere. Everything that ServeCo
7 does is being charged to the Utility.

8 And so if the amount you are allocating to the non-
9 Utility operations is incorrect, then the result is that
10 the amount you are allocating to Utility operations is also
11 incorrect.

12 MR. AIKEN: Can we just back up for a minute? Is the
13 944,000 included in the roughly 7 million of OM&A costs
14 that are paid for by the Hydro corp to the Service corp?
15 Or is this 900 and some thousand in addition to that
16 7 million?

17 MS. REFFLE: It would be in addition, in terms of from
18 the rate application perspective. However, not the full
19 amount goes through -- is a cost charge from ServeCo to
20 WiresCo. Like, of that 944, only a portion of it would be
21 a charge from ServeCo. Some of them are direct costs
22 within the wires company.

23 MR. AIKEN: That portion from ServeCo is not part of
24 the 7 million or 7.6 million, whatever the number is, on
25 OM&A costs?

26 MS. REFFLE: You are correct, yes.

27 MR. AIKEN: Okay.

28 MR. SHEPHERD: So if you have -- let's say you have an

1 8 million bill from ServeCo for the Utility, and you have
2 an \$800,000 bill from -- my math is not exact, but give me
3 a break -- for the CDM programs, how can we assess whether
4 the allocation of \$800,000 of the overall bill is the
5 correct allocation to the non-Utility operations.

6 Do we have that evidence somewhere to show that the
7 overall bill is being allocated correctly between non-
8 Utility and Utility?

9 MS. REFFLE: It would be no different from what we
10 have indicated in terms of the process whereby we use
11 project tracking. People would track time against a
12 project. It would be specific to the CDM project. Costs
13 would go there, and then they would be subsequently charged
14 to WiresCo. So they would be specific and tracked similar
15 to how, you know, our costs have been explained in the
16 prefiled evidence.

17 MR. SHEPHERD: And the hourly rates are the same?

18 MS. REFFLE: The hourly rates would be --

19 MR. SHEPHERD: For people?

20 MS. REFFLE: Yes.

21 MR. SHEPHERD: And the mark-up is the same?

22 MS. REFFLE: Yes, that's right.

23 MS. ABI-RASHED: Yes.

24 MR. SHEPHERD: Including the profit?

25 MS. ABI-RASHED: Yes. If you notice in the evidence,
26 it is identified.

27 MR. SHEPHERD: All right.

28 Now I just have a couple of questions about your 2009

1 financial statements. They're attached to SEC 18(b). Do
2 you have those?

3 MS. ABI-RASHED: Yes. Yes.

4 MR. SHEPHERD: Okay. So, Ms. Abi-Rashed, you are the
5 one who is responsible for these; right?

6 MS. ABI-RASHED: Yes.

7 MR. SHEPHERD: Okay. So you know them pretty well?

8 MS. ABI-RASHED: Yes.

9 MR. SHEPHERD: Okay.

10 So let me ask about -- first of all, about unbilled
11 revenue. That appears to be about 45 days of revenue. Are
12 you on a 60-day cycle for billing?

13 MS. ABI-RASHED: We have some customers that are
14 bimonthly and some that are monthly, as well.

15 MR. SHEPHERD: So can you help me understand why you
16 have what looks like about 45 days of unbilled revenue?

17 MS. ABI-RASHED: Well, we aren't able to bill until 17
18 business days after the last calendar month. So
19 automatically we are behind the ball 30 plus 17 days.

20 MR. SHEPHERD: Okay. Why would it be 30?

21 MS. ABI-RASHED: It could be 30. It could be 60; 60
22 plus 17, depending on the cycle, the class.

23 MR. SHEPHERD: Okay. The second question relates to
24 your debt-equity split. Somewhere in the evidence, I saw
25 that you said that you try to keep on the Board approved
26 40-60, but it looks to me like it is actually not 40-60.
27 Am I missing something here, because you have equity of
28 almost \$48 million?

1 MS. ABI-RASHED: Hmm-hmm. Debt-equity includes -- we
2 treat our regulatory assets as a flow-through income.

3 So the equity, the reason why it is so large, because
4 we have before over-recovering our regulatory assets and
5 there is a large amount in there for equity.

6 In addition, we had to make an adjustment to -- as a
7 result of deferred taxes for just under \$3 million. That
8 wasn't there before. That's a new accounting requirement.

9 So to look at that, you have to peel off those things
10 that are GAAP-related versus regulatory.

11 MR. SHEPHERD: Okay. Well, the deferred taxes
12 adjustment was in 2009, and in 2008 you still had well in
13 excess of 50 percent equity.

14 MS. ABI-RASHED: Hmm-hmm, hmm-hmm.

15 MR. SHEPHERD: So it doesn't look to me like you are
16 targeting the 40-60.

17 MS. ABI-RASHED: Well, what that tells us -- you know,
18 we are -- if you could direct me to the evidence where --
19 the context, so that I -- you know, if you could reference
20 it, I could speak to that, where you said, in the evidence,
21 that we tried to keep it to the 40-60.

22 MR. SHEPHERD: Let me ask you a different way. Do you
23 try to keep to the 40-60?

24 MS. ABI-RASHED: What we try to do is we have been
25 cautious with respect to when we borrow, because of the
26 uncertainty of Whitby Hydro utility having to meet growth,
27 these things that are out of our control, like the
28 Highway 7, smart meters. So we have been very cautious

1 when we borrow.

2 We have kept up our capital program, but not since we
3 have incorporated have we borrowed money to fund our
4 capital program. So from that point of view, we are very
5 cautious, but we aren't in a position where we're -- we're
6 going to move towards that. We are going to be required --
7 2010 will be a year where we need to do a lot of borrowing,
8 but that is the strategy. So we have been cautious.

9 MR. SHEPHERD: On that same page, you have a number,
10 deferred revenue?

11 MS. ABI-RASHED: Yes.

12 MR. SHEPHERD: Does that make its way anywhere into
13 your rate application?

14 MS. ABI-RASHED: No, it's not. It is related to smart
15 meters.

16 MR. SHEPHERD: Okay, thanks.

17 Then I am looking at page 10, credit facility.

18 MS. ABI-RASHED: Yes.

19 MR. SHEPHERD: So most of your credit facility is
20 actually taken up with your Prudential; right?

21 MS. ABI-RASHED: It is all for the Prudential. We
22 have up to 6.9, and it is strictly for the Prudential with
23 the IESO.

24 MR. SHEPHERD: So do you have a rate from that bank on
25 what you can borrow at for term debt? When they do your
26 annual approval, they give you, Here is how much we charge
27 you for this, here is how much we charge you for that. And
28 it is several categories; right? Is one of them term debt?

1 MS. ABI-RASHED: No.

2 MR. SHEPHERD: So they don't give you a term debt
3 rate?

4 MS. ABI-RASHED: No.

5 MR. SHEPHERD: Okay. So then I am looking at page 12
6 and this is -- the part I am looking at is here is the
7 second chart under 2009, and these are related-party
8 transactions with associated companies. So that is
9 ServeCo; right?

10 MS. ABI-RASHED: Give me a moment. I want to read
11 this.

12 The first part is with the Town of Whitby.

13 MR. SHEPHERD: I am talking about the second chart.

14 MS. ABI-RASHED: Okay. Yes, correct.

15 MR. SHEPHERD: It says pursuant to an annual agreement
16 with Whitby Hydro Energy Services Corporation.

17 MS. ABI-RASHED: That's correct, yes.

18 MR. SHEPHERD: So the last two numbers, the 4.6 and
19 the 6.4, those are equivalent to the numbers that we talked
20 about earlier totalling 16.3 for the test year; right?
21 Those are the same items?

22 MS. ABI-RASHED: Yes.

23 MR. SHEPHERD: Okay. I understand the CDM number, all
24 right, although it seems a lot smaller than the 994 you
25 have included this year. Help me understand that.

26 MS. REFFLE: I think we indicated earlier that there
27 are direct costs for the CDM program that go directly to
28 the wires company that don't flow through the services

1 company.

2 MR. SHEPHERD: Okay. So you haven't given us a
3 breakdown of the direct costs versus the indirect costs,
4 have you?

5 MS. REFFLE: No. I don't believe it is in the
6 evidence, although it seems to be indicated in this
7 particular document.

8 MR. SHEPHERD: Okay. So for the test year, can you
9 give us a breakdown of the 994 between amounts charged by
10 ServeCo and amounts that are direct costs?

11 MS. ABI-RASHED: Would that be for the -- I'm sorry,
12 I've lost --

13 MR. SHEPHERD: The 994 in CDM.

14 MS. REFFLE: Of the 994?

15 MR. SHEPHERD: You have excluded it?

16 MS. ABI-RASHED: I am just not understanding. This is
17 not part of our rate application, and we have determined
18 that it is -- there is no impact on rates.

19 MR. SHEPHERD: So you are going to refuse?

20 MS. ABI-RASHED: Yes.

21 MR. TAYLOR: Yes.

22 MR. SHEPHERD: Okay. And then the last part of that
23 is -- is this one called "vehicle replacement, 504634".

24 MS. ABI-RASHED: Mm-hmm.

25 MR. SHEPHERD: Now, I thought the vehicles were
26 purchased by ServeCo. So why would there be an amount that
27 you would pay them for vehicle replacement?

28 MS. ABI-RASHED: This is the "vehicle tools" component

1 we talked to. This is the "vehicle tools" that we were
2 talking about earlier.

3 We have an inconsistency in the terminology here.

4 MR. SHEPHERD: Well, no, no. But what I don't
5 understand is why on earth would you be paying them for
6 things they're charging you to use?

7 This is the cost of things, right? This is not
8 depreciation. This is the actual cost of things. Why
9 would you be paying the cost of things that you are then
10 paying depreciation on as if somebody else owned them?

11 MS. ABI-RASHED: I'm sorry, I don't understand the
12 question.

13 MR. SHEPHERD: In 2009 you paid 500,000, more than
14 500,000 to ServeCo for vehicles?

15 MS. ABI-RASHED: Vehicles and tools, yes.

16 MR. SHEPHERD: Okay. So that was a cost to buy
17 things, right?

18 MS. ABI-RASHED: It is for the use of the vehicles and
19 tools.

20 MR. SHEPHERD: So then why does it say "replacement"?

21 MS. ABI-RASHED: That's the terminology.

22 MR. SHEPHERD: These are audited financial statements.

23 MS. ABI-RASHED: That's true.

24 MR. SHEPHERD: What was being replaced?

25 MS. ABI-RASHED: The vehicles that are used to service
26 WiresCo through ServeCo, that is what is -- the vehicles,
27 it is a terminology issue.

28 MR. SHEPHERD: What kind of issue is it, then? Help

1 me understand how this is a replacement.

2 MS. ABI-RASHED: It should be "vehicles tools, usage."

3 MR. SHEPHERD: So the auditors got it wrong in the
4 note?

5 MS. ABI-RASHED: [Nods head.]

6 MR. SHEPHERD: I didn't hear you.

7 MS. ABI-RASHED: Yes. An oversight on my part as
8 well, because I review these.

9 MR. SHEPHERD: All right. So I am going to ask you to
10 undertake to show us the calculation of those two numbers
11 for vehicle replacement for each of those two years, 2008
12 and 2009, and the equivalent calculation for 2010.

13 MS. ABI-RASHED: I believe it is already in evidence
14 for -- too many papers. VECC 57(b). This is what we're --
15 if you look at VECC 57(a) and (b)...

16 MR. SHEPHERD: So you're saying -- so (a) has
17 "vehicles tools," it has 253 in 2009.

18 And it has -- where is the capital component?

19 MS. ABI-RASHED: The capital component --

20 MR. SHEPHERD: Here we are. Has 227. No, it has
21 another 253.

22 MS. ABI-RASHED: Mm-hmm.

23 MR. SHEPHERD: So that is 506, do that 506 is the 504
24 in there?

25 MS. ABI-RASHED: That's correct.

26 MR. SHEPHERD: So you just split this up 50/50, right?

27 MS. ABI-RASHED: Yes.

28 MR. SHEPHERD: Then my last question is: In your

1 financial statements at page -- just one sec. I had it.

2 Yes. At page 13, you say -- in 9(b)(i), you say part
3 of the way you manage your credit risk is through an in-
4 house collection department. You don't have an in-house
5 collection department, right? ServeCo has a collection
6 department?

7 MS. ABI-RASHED: Yes, yes. Yes, it is with Services
8 company that provides --

9 MR. SHEPHERD: So this is another error in your
10 audited statements, then?

11 MS. ABI-RASHED: Clarification, yes.

12 MR. SHEPHERD: Thank you. I have no other questions.

13 MR. MATHER: Any follow-up questions from anybody?

14 MR. HARPER: No.

15 MR. MATHER: I have no questions.

16 Thank you.

17 MS. ABI-RASHED: Thank you very much.

18 MR. MATHER: Come again.

19 MS. ABI-RASHED: We will.

20 MR. SHEPHERD: We are off the record now.

21 --- Whereupon the conference concluded at 3:05 p.m.

22

23

24

25

26

27

28