ONTARIO ENERGY BOARD

FILE NO.: **EB-2012-0161**

VOLUME: **Technical Conference**

DATE: **September 24, 2012**

EB-2012-0161

THE ONTARIO ENERGY BOARD

IN THE MATTER OF the Ontario Energy Board Act 1998, S.O. 1998, c.15, (Schedule B)(the "Act");

AND IN THE MATTER OF an application by PowerStream Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective January 1, 2013.

Hearing held at 2300 Yonge Street,
25^{th} Floor, Toronto, Ontario,
on Monday, September 24th, 2012,
commencing at 9:35 a.m.

TECHNICAL CONFERENCE

A P P E A R A N C E S

KRISTI SEBALJ	Board Counsel
MARTIN DAVIES STEVEN VETSIS DUNCAN SKINNER RAJ SABHARWAL	Board Staff
JAMES SIDLOFSKY COLIN MACDONALD	PowerStream Inc.
RANDY AIKEN	Energy Probe Research Foundation
JULIE GIRVAN	Consumers Council of Canada (CCC)
JAY SHEPHERD DEB DEVGAN	School Energy Coalition (SEC)
BILL HARPER	Vulnerable Energy Consumers' Coalition (VECC)

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Monday, September 24, 2012

--- On commencing at 9:35 a.m.

MS. SEBALJ: Good morning, everyone. My name is Kristi Sebalj and I am Board counsel for the PowerStream cost of service file, which is EB-2012-0161. And with me is Martin Davies, who is the case manager for the PowerStream 2013 cost of service.

Later in the day, you will be meeting Duncan Skinner and Raj Sabharwal and Steven Vetsis, all of whom are on the Board Staff team and will be posing questions of the various panels.

Just by way of introduction, PowerStream Inc. filed an application with the Ontario Energy Board on May 28th, 2012 under section 78 of the Ontario Energy Board Act, seeking approval for changes to the rates that PowerStream charges for electricity distribution to be effective January 1, 2013. The Board issued a Notice of Application and Hearing on June 7th, 2012. On August 30th, 2012 PowerStream filed its responses to the interrogatories of the intervenors and Board Staff. This technical conference, which is scheduled for today and tomorrow, if required, is to clarify any issues that arise out of the interrogatory responses filed.

The Board also ordered that any undertakings given by PowerStream during the technical conference be filed no later than October 1st, which is just before the settlement conference is scheduled.

I note for the record that PowerStream claimed confidentiality for part of its response to School Energy

Coalition Interrogatory No. 28. In PO No. 3, the Board indicated that it would allow external counsel and external consultants for the intervenors that wish to review the confidential document to do so after signing a copy of the declaration and undertaking. The Board also ordered that PowerStream bring copies of that information today, so if anyone doesn't have it, we can provide a copy of the declaration and undertaking, which can be signed by external counsel and external consultants, and that information can be provided. The Board also set up a submission process around the confidential information but that process is still underway.

I note that the proceedings today and tomorrow are transcribed, so please use the mics and speak slowly and clearly into the mics to assist the court reporter. I also note that this is a court reporter that doesn't spend as much time at this Board as some others, so if you could please make sure that you introduce yourselves if required, if you haven't already as part of the appearances this morning.

I also note that, as always for a technical conference, there is no panel to adjudicate any disputes, so if there are any, I would ask that parties put those disputes on the record, and if required, we can seek Panel guidance after the technical conference.

The only other thing I wanted to note is that there has been -- as most of you know, the schedule is a bit fluid today as a result of the Enersource hearing that's going on next door, and some parties' varying availability throughout the day.

So I think PowerStream has provided a list of the witness panels that it intends to put forward, and on that list operating expenses was the first panel, but that's been deferred. Rate base and capital has also been deferred and I believe we're going to start with the revenue and load forecast panel. I think the intention is to go to rate base after revenue and load forecast, but I guess we'll see as the day progresses how that goes.

I understand that there are preliminary comments from PowerStream, but before we get to those I would ask that everyone please register their appearances for the record.

MR. SIDLOFSKY: Good morning, Ms. Sebalj. James Sidlofsky, Borden Ladner Gervais, counsel to PowerStream. I'm here with Colin Macdonald, who is the vice president of regulatory and rates at PowerStream, and Mr. Macdonald will be introducing his panels momentarily.

MS. DEVGAN: Deb Devgan, School Energy Coalition.

MR. HARPER: Bill Harper, consultant for the Vulnerable Energy Consumers Coalition.

MS. SEBALJ: Is everyone else in the room otherwise from PowerStream, or is there any other intervenor group in the room? I suspect we'll have more appearances as the day goes on.

So I'll turn it over to you, Colin.

POWERSTREAM INC. – PANEL 1, REVENUE AND LOAD FORECAST

Colin Macdonald

Dianne Petrucci

Vitalika Quenville

MR. MACDONALD: Thank you, Ms. Sebalj.

PRESENTATION BY MR. MACDONALD:

I will introduce our first panel in just a moment, but I wanted to make a few brief opening remarks. And for the record, my name is Colin Macdonald. I'm vice president rates and regulatory affairs at PowerStream.

So I have, as I mentioned, brief comments and they're in two categories.

The first I wanted to mention, that as a result of the IR responses and more specifically in relation to Board Staff IR No. 2, we did update our revenue requirement and there's -- if you look at the response to Board Staff No. 2, there's a list of seven items that emerge from the IR process, pluses and minuses to revenue requirement.

So where we stand now with those updates -- and it's listed or shown below the table -- we've increased our revenue deficiency from $7.5 million to, I believe, $7.9 million. So our revenue at current rates was 162 million, so our revenue required is about $170 million. So it's -- since we had pluses and minuses, the net change was quite small. So those changes have been filed in the revenue requirement work form update. That's the first item I wanted to mention.

Second category is new things that have emerged in the last number of days, and the first was -- actually came to light when we were doing our August month-end at

PowerStream and we realized that we hadn't correctly followed the Board's guidance for treating the accounting of the late payment penalty rider. And as a result of that correction, the amount in regulatory assets should be reduced by $340,000. So in our deferral accounts, we're in a net asset position, so that means customers owe us money. So making this correction means that customers owe us $340,000 less.

We haven't made that correction, and I'm assuming as we continue this review process there will be other updates but we'll hold that for a later update.

I wanted to mention, as well, in our response to Energy Probe 7a), we made -- we had a wrong number shown for our lease for our Addiscott service centre. So the correct number is $1,863,000. In our response, we showed $1,712,000, so the number should be $151,000 higher. Again, we have made no adjustment for that, but we'll hold that for when there is a chance to do updates later.

And the third item I wanted to mention, there were a number of questions about CDM, in particular the OPA 2011 to 2014 programs, and the OPA provided their final results for 2011 just after we filed our IR responses, and there were a number of questions about how that works and what we would do about that. So over the last couple of weeks after we files the responses, we did take those final OPA results for 2011 and we reran our load forecast using the actual results for 2011 instead of an estimate. And that led to lowering our revenue at current rates by $73,000, so

I would characterize that change as almost immaterial, but we would be happy to answer any questions on that if there are today.

So with that, those are my opening comments. And I would like to introduce our first panel, which will answer questions on revenue load forecast.

So on my left is Dianne Petrucci; she's our manager of financial services.

And on my right is Vitalika Quenville; she's a rate analyst who, at PowerStream, sort of specializes in our load forecast and revenue forecasting.

MS. SEBALJ: I guess the other thing that we should mention before we turn it over to parties is that PowerStream has filed responses, written responses to the interrogatories of VECC and Energy Probe, and those are already marked with exhibit numbers -– sorry, technical conference questions. What did I say, interrogatories?

I assume that because these are now on the written record that we don't need to read them into the record or anything like that. But if the parties, obviously, who have received responses have follow-up questions, this would be the forum to do it.

So I'll turn it over to Mr. Harper.

QUESTIONS BY MR. HARPER:

MR. HARPER: Thank you. That was a good segue into my questions, and thank you for filing the written responses.

I actually have only one area of follow-up, and it does have to do with the CDM, and the topic that you were just talking about.

There were a number of different numbers filed during the course of the proceeding, and what I would like to do is walk through my understanding of what each of them are, where they are coming from, and where we are right now.

So maybe if you'd start off by turning up your response to VECC Technical Conference Question No. 55b), that's under issue 3.2. I think that's found at page 4 of 14 of the materials.

MR. MACDONALD: Mr. Harper, is that the responses that were just filed?

MR. HARPER: Yes, the responses you filed last week. I think you entitled it Exhibit J-1, tab 2, schedule 2,and this would be page 4.

MR. MACDONALD: Yes we have it.

MR. HARPER: Just so I understand, I think that on the first table there, you're showing annualized savings of – I don’t have my glasses on, but 14.637 gigawatt-hours.

MS. PETRUCCI: That’s correct.

MR. HARPER: And that's the same number you used in your original application, if I am not mistaken; is that correct?

MS. PETRUCCI: That's correct.

MR. HARPER: And the basis for that number was your original CDM plan, going in terms of how you thought CDM programs might work through 2011. Is that a fair comment?

MS. PETRUCCI: That's correct.

MR. HARPER: Okay. So then if we turn up the response to -- actually we go to the next page and turn up the response to VECC Technical Conference Question No. 56b), and actually it’s appendix A, and if we turn to page 12 of 31 of that appendix A.

MS. PETRUCCI: Sorry, Mr. Harper, what page was that?

MR. HARPER: That’s page 12 of 31 of appendix A.

MS. PETRUCCI: I have that.

MR. HARPER: I understand from this, in terms of this report, the OPA was reporting savings for 2011 of 37.27 gigawatt-hours at the time this report was issued.

MS. PETRUCCI: That's correct.

MR. HARPER: And again, that would be an annualized number, not taking into account that some of the programs may not have been implemented January 1st of the year; is that correct?

MS. PETRUCCI: You're correct, yes.

MR. HARPER: Lastly, if we turn to the next appendix, which is appendix B to the same response, and we go to page 4 of that.

MS. PETRUCCI: I have that.

MR. HARPER: Here the OPA is showing 29.31 gigawatt-hours of CDM savings for 2011.

MS. PETRUCCI: Yes.

MR. HARPER: I assume that's an update to the 37.27 number that was shown before?

MS. PETRUCCI: This one is prior to the 2011 verified results. The 2012 quarterly report is unverified, and the 2011 final report is verified 2011.

MR. HARPER: Out of the two numbers, the 37.27 is the good one if we can --

MS. PETRUCCI: For the most part, yes.

MR. HARPER: If we can call it that. Okay, fine. Again we talked about that 37.27 being an annualized number. Okay.

Maybe to go back to what Mr. Macdonald was saying, he was saying you updated the load forecast -- you would have updated using the 37.27 gigawatt-hours as your 2011 CDM savings?

MS. QUENVILLE: No, we used the 12, the 12 million kilowatt hours we used.

MR. HARPER: You used the 12?

MS. QUENVILLE: Yes. That's the way we interpret the question.

MR. HARPER: No, what I was saying was -- Mr. Macdonald, in his opening remarks there, made a comment about having recently gotten the final results from the OPA and having updated your load forecast. I wasn't too sure whether that update to the load forecast, and you talked about differences being what you reflected in the response to the VECC technical conference question, or whether it was another, a further update to load forecast and separate analysis that you'd done.

MS. QUENVILLE: In response to a technical conference question, we updated the tables using the 12 million kilowatt hours.

But however, in Colin's opening remark, he referred to reduction in the load forecast based on the 37 million kilowatt hours.

MR. HARPER: That's what I was trying to clarify, was that was a different piece of analysis again from what you did to the VECC technical conference question.

MR. MACDONALD: That's correct.

MR. HARPER: Would it be possible for you to file basically sort of the details of that updated load -- provide a copy of that updated load forecast model, sort of similar to what you've done in response to VECC Technical Conference Question 56b), for the analysis that you just completed?

MR. MACDONALD: So, Mr. Harper, you mean the tables with the data?

MR. HARPER: No, it was a matter of just what the resulting equation was, what the statistics of the equation were, and sort of the details of what the actual gigawatt hour forecast arising from that new equation were.

If you look at the response to VECC Technical Conference Question No. 55b), you'll see that there's some summary data there based on the re-estimation using the 12, and I was wanting similar information based on your most updated re-estimation using the 37.

MR. MACDONALD: Yes, we can take that as an undertaking.

MR. HARPER: That would be great.

MS. SEBALJ: Can I mark it? It will be JT1.1.

UNDERTAKING NO. JT1.1: TO UPDATE THE LOAD FORECAST

MODEL IN A SIMILAR WAY AS VECC TCQ NO. 55B), USING 37 RATHER THAN 12 MILLION KILOWATT HOURS.

MR. MACDONALD: Can we read that back in?

MS. SEBALJ: I can let Mr. Harper do it. My understanding is it's basically to update the load forecast model in a similar way as VECC 55b), using the 37 rather than the...

MR. HARPER: Twelve.

MR. MACDONALD: Yes, we'll do that.

MR. HARPER: Maybe just to finish this off, as we talked about the 37 was an annualized number, correct?

MS. PETRUCCI: Yes.

MR. HARPER: If I'm not mistaken, we've had conversations with other electricity distributors who have been going through the process of their 2013 rate applications, and they've advised us that for 2011, many of the programs didn't get started in the first half of the year. There was a little bit of delay in the OPA getting programs out and getting them rolling for 2011. Did you have a similar experience at PowerStream?

MS. PETRUCCI: We did, but there were also carry-over effects from -- we had a good push on 2010 ERIP program that carried over into 2011, and that’s causing some of the additional savings that we are realizing over the plan.

MR. HARPER: That would be captured in your load forecast model. That would be captured by the CDM savings that you've built in for 2010.

MS. PETRUCCI: Correct.

MR. HARPER: So it's fair to say that the actual savings for 2011, based on 2011 programs, were probably -- I don't want to characterize it -- a fair bit less than the 37 gigawatt-hours, which is calculated on an annualized basis; is that the case?

MS. PETRUCCI: Yes.

MR. HARPER: Would it be possible to do an analysis similar to what you did in VECC 55a), in terms of what would be the actual impact in 2011 of those programs, based on the estimated start dates for each of the sub programs?

MS. PETRUCCI: You're looking for the prorated savings of the 37?

MR. HARPER: Exactly.

MS. PETRUCCI: Yes, we can do a similar analysis.

MS. SEBALJ: JT1.2.

UNDERTAKING NO. JT1.2: TO PERFORM AN ANALYSIS SIMILAR TO THAT FOR VECC 55A) SHOWING THE ACTUAL IMPACT IN 2011 OF THOSE PROGRAMS, BASED ON THE ESTIMATED START DATES FOR EACH OF THE SUB PROGRAMS AND PRORATED FOR 37 MILLION KILOWATT HOURS.

MR. HARPER: Actually, with that, that's all the follow-up that I have. Thank you very much.

MS. SEBALJ: Does anyone else in the room have questions for this panel?

And my understanding is that Mr. Shepherd didn't have any for load forecast, or did he? And is he the only other party that's not -- is there anyone else in the Enersource hearing that indicated that they did have questions?

MR. MACDONALD: Ms. Sebalj, the only formal notice we got was from VECC. They were interested in the load forecast. That’s all.

MS. SEBALJ: The load forecast, all right. So with that, I believe that -- with our thanks -- this panel can stand down and we'll move to -- the intention was to move to rate base; is that correct?

MR. SIDLOFSKY: That's right. Second panel was rate base and capital.

MS. SEBALJ: I know we have a question for rate base. We have a question.

Does VECC have questions for -- no?

Energy Probe?

MR. AIKEN: I don't think so, but I'm going to check.

MS. SEBALJ: You might have to do that quickly because it's not looking like there'll be a long set of questions.

And what about Schools?

MS. DEVGAN: Yes. He has rate -- Schools has questions for rate base.

MS. SEBALJ: So maybe Board Staff can ask its one question and then we may have to -- it's moving in on 10 o'clock, so Schools may be able to join us.

We may have to take a break. I apologize for this. This is not, obviously, the usual course.

MR. MACDONALD: Would it make sense to do the technical panel next, then?

MS. SEBALJ: I guess we'd have to call our people to do the technical panel.

Mr. Harper, do you have questions for the technical panel?

MR. HARPER: No, I do not.

MS. SEBALJ: Energy Probe? Maybe?

MR. AIKEN: Yes.

MS. SEBALJ: Schools? Yes.

Okay. Why don't we proceed with the technical panel? Apologies to the rate base panel, who were up and then down.

We'll start with questions of people in the room and then maybe we can go get our people. You're waiting for Jay before you ask questions? Okay.

Randy, are you in a position to go first?

MR. AIKEN: Yeah, I can go first.

MS. SEBALJ: I won't make you do a time estimate, but do you have multiple --

MR. AIKEN: I have no idea.

MS. SEBALJ: -- questions? You have no idea?

MR. AIKEN: Yeah, because some of these questions may actually be more for the operating expenses panel, because there is some overlap in some areas.

MS. SEBALJ: Why don't we go get our people? And if we have to pause, we'll pause. So if we could get the technical panel to please join us at the front?

POWERSTREAM INC. – PANEL 2, TECHNICAL

Colin Macdonald

Tom Barrett

Carolyn Young

Shelly Cunningham

MR. MACDONALD: Ms. Sebalj, our panel is ready. If I can introduce what we called our technical and other panel, so on my left is Tom Barrett, who is our manager, rate applications, and on my right is Carolyn Young, who is vice president of financial services. And we're available for questions.

MS. SEBALJ: Thank you.

Mr. Aiken?

QUESTIONS BY MR. AIKEN:

MR. AIKEN: I want to start off with the issue of depreciation. And if you look at the latest revenue requirement work form that was filed -- and this is J1, tab 1, schedule 1.0, and it was provided in the response to Board Staff 2-1 -- or, sorry, it's table Board Staff 2-1, in the revenue requirement page, the amortization depreciation expense is shown as 36,607,422 in the middle column. I just want to make sure that that's the number we're starting with.

MR. MACDONALD: Mr. Aiken, we just need a moment to catch up with you there, so which page are you on?

MR. AIKEN: I'm on the revenue requirement page. It was the revenue requirement work form filed in response to a Board Staff interrogatory, and it's labeled "Table, Board Staff 2-1."

MR. MACDONALD: Yes, we have it.

MR. AIKEN: So its middle column, I'm assuming, reflects all the changes due to the interrogatory responses.

MR. MACDONALD: That's correct.

MR. AIKEN: So the depreciation expense is the 36,607,422 shown there?

MR. MACDONALD: That's correct.

MR. AIKEN: Now, if you go to Exhibit J1, tab 1, schedule 1.0, and it's the attachment to Board Staff 5-2, and specifically its appendix 2-CD, depreciation and amortization expense for 2013.

And my question is: Can you reconcile the number from the revenue requirement work form of the 36,607 with the number shown here, because I don't see a 36,607? In fact, the number I see that -- there's a bold line near the bottom:

"Total depreciation expense to be included in the test year revenue requirement is 35,161,316."

MR. BARRETT: I think we will have to have an undertaking on that. I'm not able to quickly reconcile that.

MS. SEBALJ: We'll mark it as JT1.3. I want to make sure I get the exhibits right. So it's to explain the discrepancy in the depreciation, appendix 2-CD of -- in response to Board Staff Interrogatory No. 2.

And what was the first reference again? J1, tab 1, schedule 1; is that right?

MR. AIKEN: Yeah, table Board Staff 2-1.

MS. SEBALJ: Thank you. So that's JT1.3.

UNDERTAKING NO. JT1.3: TO EXPLAIN DISCREPANCY IN

DEPRECIATION IN RESPONSE TO BOARD STAFF INTERROGATORY NO. 5-2, APPENDIX 2-CD

MS. SEBALJ: Sorry, Mr. Davies is telling me that it’s Board Staff No. 5; is that right? The updated appendix?

MR. AIKEN: The updated appendix 2-C is Board Staff No. 5-2, or the attachment to it, yes.

MS. SEBALJ: Okay. Thank you.

MR. AIKEN: Then I think my next question for this panel would be -– well, maybe you can tell me, but it's to do with the amount in the PP&E deferral account, and this is the Exhibit J1, tab 1, schedule 1.0, the attachment to Board Staff 5-6, and appendix 2-EA, "IFRS-CGAAP transitional PP&E amount."

MR. BARRETT: We have that.

MR. AIKEN: What I would like to do here is reconcile the numbers shown here for 2011 and '12 with the numbers in the continuity schedules in appendix 2-B that were provided in Exhibit J1, tab 1, schedule 1.0, attachment to Board Staff 5-1.

When you have those, I'll have a couple of questions.

MR. BARRETT: Is there a specific question?

MR. AIKEN: Yes. I'll start with Appendix 2-EA. The very first line, the opening net PP&E for 2011 actual 643,487,859; am I correct that that is the closing 2010 balance under CGAAP?

MR. BARRETT: That would be correct.

MR. AIKEN: If you go to appendix 2-B, for 2010, the last column, last line, I see a net book value of 613,158.

I am wondering what is the roughly 30-million-dollar difference?

MR. BARRETT: Essentially, the difference would be work in progress.

MR. AIKEN: So in the continuity schedule, appendix 2-B, where the work in progress shown?

MR. BARRETT: It's not shown on 2-B. It's excluded, because it's not yet in service.

MR. AIKEN: So these continuity schedules don't show your rate base?

MR. BARRETT: I'm sorry, which schedule? The 2-B certainly does show our rate base, or our fixed asset amounts that are used in calculation of rate base.

MR. AIKEN: So then in your PP&E account, appendix 2-EA, these are not rate-based numbers because they include work in progress?

MR. BARRETT: Well, I think the inclusion or exclusion of work in progress from rate base is simply a question of timing.

MR. AIKEN: But is it your understanding the PP&E is supposed to be based on rate base?

MR. BARRETT: My understanding is it's based on the PP&E amounts that would have been there under Canadian GAAP.

MR. AIKEN: What I'm saying is there's $30 million less in rate base in 2010, at the end of 2010, than you're showing as your opening balance in the PP&E account.

MR. BARRETT: And I agree with you that we have included work in progress in the calculation of form 1575, and we believe that is correct.

MR. AIKEN: Can you provide a version of appendix 2-EA that is based on rate base?

MR. BARRETT: I really don't understand the question because I'm not sure that 2-B -- that that is what should be on this form. We could certainly do that.

MR. AIKEN: And you may be right, but we will need to see both sets of numbers to see if there is a material difference.

MR. BARRETT: Mr. Aiken, would you be satisfied with a reconciliation between the two numbers, showing what the differences are?

MR. AIKEN: I think it would be simpler if you just did appendix 2-EA based on rate base amounts, and capital additions close to rate base each year, along with the depreciation amounts. And probably that -- there would be a reconciliation of the two sets of numbers.

MR. BARRETT: We can certainly perform or provide a version of Appendix 2-EA using the fixed asset amounts from 2B, if that's what you would like.

MR. AIKEN: Yes, that's what I would like.

MS. SEBALJ: That's JT1.4.

UNDERTAKING NO. JT1.4: TO PERFORM OR PROVIDE A VERSION OF APPENDIX 2-EA USING THE FIXED ASSET AMOUNTS FROM APPENDIX 2-B

MR. AIKEN: And I think my only other question for this panel is the response to Energy Probe Interrogatory

No. 49, which was part of the technical conference questions, and this relates to depreciation once again. And you've updated the impact of the full year depreciation in 2013 versus a half year.

So my understanding now that's 1.883 million. So I have two questions on this.

The first, has this been included in the updated revenue requirement work form? I think the answer is yes, but I just want to confirm that.

MR. BARRETT: I'm sorry what was the IR number?

MR. AIKEN: Number 49. This is what you filed on Friday.

MR. SIDLOFSKY: Just to be clear, Mr. Aiken, that was the first of the technical conference questions that Energy Probe provided, right?

MR. BARRETT: You're correct. The revised number was filed in the August 31, 2012, using depreciation including the 1.883 million.

MR. AIKEN: And that's what's included in the updated revenue requirement work file?

MR. BARRETT: That's correct.

MR. AIKEN: Okay. Then in a response to Consumers Council of Canada Interrogatory No. 7, they asked for the impact on the 2013 revenue requirement of this full year amortization expense, and the response was roughly 2.1 million in total, which was a depreciation in the PILS impact. So can you update that response to CCC Interrogatory No. 7 to reflect the depreciation amount of

1.883 million?

MR. MACDONALD: Yes, we can do that, Mr. Aiken.

MS. SEBALJ: JT1.5.

UNDERTAKING NO. JT1.5: TO UPDATE THE RESPONSE TO CCC INTERROGATORY NO. 7 TO REFLECT THE DEPRECIATION AMOUNT OF 1.883 MILLION

MR. AIKEN: Thank you. Those are all my questions for this panel.

MS. SEBALJ: Thank you. I think Board Staff is the only other party who has questions that's in the room at the moment.

QUESTIONS BY MS. SABHARWAL:

MS. SABHARWAL: I am Raj Sabharwal, and I'm in the regulatory audit department, and I just have a question on appendix 2-B.

The average net book value is shown as 721,268. After adjusting for 1575 of 1931, one-million-931, and including the working capital allowance of 122,643, the rate base amount works out to 841,990 versus the revenue requirement work form rate base amount of 842,042. So there is some difference there.

MR. BARRETT: I'm sorry, I didn't quite follow.

MS. SABHARWAL: There is a difference between rate base amount as calculated using appendix 2-B, the net book value, and adjusting for 1575 after amortization and the working capital allowance.

The rate base works out to be 841,990 million -- or thousands, which is different from revenue requirement work form. There is a difference of about 50 million.

MR. BARRETT: I apologize, but I'm having a hard time finding the exact number that you...

MS. SABHARWAL: Appendix 2-B is the continuity schedule for PP&E, and after you --

MR. BARRETT: I have that in front of me, yes.

MS. SEBALJ: Sorry to interrupt, but both of you are speaking quite softly. Can I get you both to speak up quite a bit for the court reporter?

MS. SABHARWAL: So I just recalculated the rate base based on using PP&E, adjusting for 1575 and then adding the working capital allowance.

MR. MACDONALD: We're on 2B. Can you point us to the number in question, the first number?

MS. SABHARWAL: The reason I'm not -- I can't give you the reference is because I calculated this number to be 841,990, and it's based on these three numbers from 2-B, appendix 2-B. This was filed -- yeah, this was filed as part of the -- it was 721,268. It was filed as part of those appendices.

MR. MACDONALD: Is that in our IR responses, or...

MS. SABHARWAL: Yes -- no – yes, that's right. It was the latest filing when all the chapter 2 appendices were filed.

MR. MACDONALD: Sorry, we have that appendix 2B. If you could point to the first number, it would help us.

MS. SABHARWAL: The number 721,268 came from 2013, 2B, modified IFRS. Let me just look for it here.

MR. MACDONALD: I apologize, but we can't see that number on the form that we filed.

MR. AIKEN: Maybe I can jump in, because I happen to have these two pages printed off. The 721,268 is the average of the PP&E net closing balance of 2012 and 2013, which are 698,664 and 743,872.

MS. SABHARWAL: Thank you, Randy. Yes, that's what I was looking for.

And then it was adjusted for 1575, which is 1 million 931 after depreciation. And then added the working capital allowance of 122,643. Just the difference of 50 million, I just wanted to know why there's a difference.

MR. BARRETT: I'm sorry, I'm looking at the revenue requirement form, and there's gross fixed assets average, cumulative depreciated of 806 million, and there's cumulative depreciation of almost 87 million. I don't have a calculator with me, but it sounds like it's about 720 million average.

MS. SABHARWAL: Yes. 721,268 was the average for -- that you would use the net book value for 2013 PP&E. And then you would adjust it for the 1575 and then add the working capital allowance of 122,643. So you get a number of 841,990, which is different from the rate base used in the revenue requirement work form.

MR. BARRETT: I can provide our calculation to support this. I'm not -- I'm not able to respond to that off the top of my head.

MS. SABHARWAL: I don't know what the process is.

MS. SEBALJ: We can mark it as an undertaking. I guess I need someone to articulate for me what this undertaking is.

MS. SABHARWAL: What I'm looking for is the rate base that -- based on the schedules that are filed. That's what should be provided. And it's different from -- and if it's -- based on those schedules, is what should be used in revenue requirement work form, and that should be provided.

MS. SEBALJ: So basically you're using the numbers in the rate base schedules and you're coming to a different number than in the work form, and you'd like a reconciliation of those two?

So that's JT1.6, provided that you're willing to provide that undertaking. Yes?

MR. MACDONALD: Yes, we can do that.

UNDERTAKING NO. JT1.6: TO RECONCILE NUMBERS IN RATE BASE SCHEDULES.

MR. DAVIES: Okay. The next question is a similar one, and it relates to appendix 2-CD.

And the depreciation expense number in that appendix is shown as $35,161,316; do you have that number?

MR. BARRETT: Yes, I do.

MR. DAVIES: Then the second part of the question would relate to the depreciation amortization number in the RRWF, which is shown as $35,844,204; would you have that number?

MR. BARRETT: Can you confirm that was the 36,607,422?

I didn't catch that.

MR. DAVIES: Yes, I guess it would be the 36,607,422. Do you have that number?

MR. BARRETT: Yes, I do.

MR. DAVIES: And the question would be: Can you explain the difference between those two numbers?

MR. BARRETT: We'll have to give you an undertaking on that.

MS. SEBALJ: It's JT1.7.

UNDERTAKING NO. JT1.7: TO RECONCILE DEPRECIATION AMORTIZATION NUMBER IN THE RRWF.

MR. DAVIES: I think those are all the questions that Raj had. I had a couple of questions, but perhaps Duncan could ask his questions next, and...

QUESTIONS BY MR. SKINNER:

MR. SKINNER: Duncan Skinner, Board Staff.

I had a follow-up to your answer to our Interrogatory No. 55 that has to do with bad debts for Vaughan.

What I was trying to do was to find out if the 200,000 related to sales that occurred before October 1, 2001, or to sales that took place after Vaughan became taxable. And I was wondering if you knew which period the sales that gave rise to those bad debts related to.

MR. BARRETT: It appears I misunderstood the question. Now reading it -- it appears I have no other information, other than what's here. If they disallowed 165,000 related to pre-October 1st, 2001, I would assume that portion would relate to that period. Should be --

MR. SKINNER: And I have a similar question for the 200,000, if it was a similar kind of item.

Utilities typically wait a long time before writing off receivables, and since this was so close to the period of time in which Vaughan became taxable, I was curious as to whether this in fact were bad debts related to sales where the gross profit would have been excluded from tax. And, as an extension, expenses related to that I would think would also be excluded.

MR. BARRETT: My understanding is the 200,000 would be the current accrual, which would be for 2002. We would have had an accrual at December 31 for bad debt, and we would have had an accrual at December 31st, 2002. So that would presumably be the increase, which would be for 2002 for new bad debts arising.

MR. SKINNER: Thank you. The next one is in response to a question; just let me get the number for you.

It's number 56; it's the multiple part interest question. And it's in response to a), and your answer appears on page 20 of 32 of that response.

In calculating your interest expense, you've made a series of adjustments, which in every year reduces the interest expense below the deemed so that there is no true-up. And you've made a comment at the top of page 20:

> "PowerStream has also made some adjustments to reflect the fact that due to growth, the actual rate base in 2001 through 2005 is larger than the 1999 rate base."

I couldn't find anything numerically that would demonstrate that that is a true fact, and I was wondering if you had submitted something that I missed.

MR. BARRETT: I believe if you turn to the attachments, there was a schedule 5, table, Board Staff 56-1, where it details a number of adjustments.

MR. SKINNER: Do you have a table that shows rate base from 1999 through 2006 that would demonstrate that there has in fact been an increase?

MR. BARRETT: No, it's not in the filed evidence.

MR. SKINNER: Okay. I did a table myself, and I was wondering if you could just validate the table as an undertaking?

MR. BARRETT: Certainly.

MR. SKINNER: If you wouldn't mind doing that? What I did was I listed the expense from your evidence, and I listed assets from your evidence, and I tried to find a relationship between the two. So it's all your material from your file.

MS. SEBALJ: So unless you want to provide any response now, I think Duncan is satisfied to just do this as an undertaking.

MR. MACDONALD: Yes, we'll take this one away.

MS. SEBALJ: I'm going to mark the table so I'll mark it as KT1.1, Exhibit 1.1. And Duncan, can you give me some words around the undertaking so that I...

EXHIBIT KT1.1: TABLE PREPARED BY BOARD STAFF SHOWING RATE BASE FROM 1999 THROUGH 2006

MR. SKINNER: It's to confirm that the data in the table prepared by Staff that relates to rate base growth from 1999 to 2005 is correct. Or alternatively, if there is another table that you would like to submit that would explain it, that would be helpful as well.

UNDERTAKING NO. JT1.8: TO CONFIRM THAT DATA IN EXHIBIT KT1.1, TABLE PREPARED BY BOARD STAFF, IS CORRECT; OR TO SUBMIT TABLE IF NECESSARY.

MS. SEBALJ: Thanks.

QUESTIONS BY MR. DAVIES:

MR. DAVIES: I had a couple of questions on interrogatories that are in the general section, but they relate to the -- the first one relates to the revenue requirement changes, and the second one relates to changes in the rate impacts resulting from the update. So I would just like to clarify first that this would be the correct panel to ask those questions to.

MR. MACDONALD: Yes, Mr. Davies, I think this is the right panel for those questions.

MR. DAVIES: Okay. The first question relates to your response to Board Staff Interrogatory No. 2, and specifically on page 3, table Board Staff 2-2, summary of changes and corrections. Do you have that table?

MR. BARRETT: Yes, I do.

MR. DAVIES: Now, below the table you say that the proposed adjustments result in a revenue requirement of $169.9 million, an increase of 0.4 million from the originally submitted revenue requirement of 169.5 million.

And I think you said earlier today that there were a number of ups and downs, in terms of the factors in table 2-2, that led to that 0.4 million change.

And the question would be could you break down the 0.4 million change between the factors that are shown in table 2-2?

MR. MACDONALD: Yes.

MR. DAVIES: Would you be able to do that now, or should that be an undertaking?

MR. MACDONALD: Well, I have that data with me. I could provide it during a break or -- is that an undertaking still?

MS. SEBALJ: No, I think if you're willing to do some analysis over the break and come back, we don’t need to mark it.

MR. MACDONALD: We have it, so -- we have the data, so we can provide it.

MS. SEBALJ: After a break?

MR. MACDONALD: Yes, at the break.

MS. SEBALJ: That’s fine.

MR. MACDONALD: I think it's easier than reading out the numbers.

MS. SEBALJ: I see. You're going to --

MR. MACDONALD: Provide the table.

MS. SEBALJ: Provide it. Perfect, thanks.

MR. DAVIES: Just as a further question on that table, one of the factors that you refer to is the change in PP&E, where you state that the contributed capital paid for

Midhurst TS to Hydro One and the corresponding amortization included. And on the next page, on page 4, you say in 2012 PowerStream was required to pay another $4.4 million in contributions for the Midhurst transformer station under the true-up condition in the cost sharing agreement based on actual load.

And I'm just wondering if you could discuss that a little more and explain how the true-up condition worked, and whether or not this type of adjustment is something that you would normally expect or out of the ordinary.

MR. MACDONALD: Yes, I can start. I might ask Ms. Cunningham to come up and join me, but I think this is a fairly standard arrangement when a utility strikes an arrangement with Hydro One to build a transformer station. There is a set of assumptions made going in, when the station is designed and constructed, based on future load growth. And if that doesn't materialize, in this case -- this is actually the former Barrie Hydro entered this arrangement with Hydro One. In this case, the load didn't materialize to the extent it was expected at the time the station was constructed.

So it ended up that Barrie and now PowerStream essentially owed money to Hydro One. There was a true-up process. From my understanding, it's a fairly standard process when a utility partners with Hydro One.

I don't know if I got that right.

MS. CUNNINGHAM: Shelly Cunningham here. You did get that right, Colin, is when we entered into the Midhurst agreement with Hydro One, is we had a forecast. And at that time, we had to pay minimal costs, but the true-up mechanism that's within the agreement is -- I believe it forms, and I may not be correct on this, but part of the transmission code, the system code. It's standard fare within the Transmission System Code, and we had less load than we expected. A number of factors, obviously, the economy and the CDM factors, and as a result we had to go for go for the true-up.

MR. DAVIES: Thank you. The other question that I had related to Board Staff Interrogatory No. 3, and specifically in that response, table Board Staff 3-1, "summary of total bill impacts."

MR. MACDONALD: Yes, we have that.

MR. DAVIES: And the question was that above the table you state that:

> "As a result of the proposed updates the revenue requirement increased by 0.18 percent, with minimal impacts on the monthly bills."

And then this table shows the total bill impacts. And the impacts on the residential class appear to be less significant than those on the GS less-than-50 KW class; i.e., for the south zone, the monthly total bill increases from -- I think it was originally $1.69 to $1.95, an increase of about 15 percent, and in the Barrie zone, the increase had been $6.20 before the updates, but now is about $5.93. So that's around 4 percent.

Just wondering if you could give any explanation as to why the changes seem to be larger in that class than the residential.

MR. MACDONALD: So in this table there are at least two moving parts. One is the change in the revenue requirement; the second is rate harmonization.

So going into the merger, Barrie residential customers had rates a lot higher than the PowerStream south, so you see the big change for the north to decrease. Going into the merger, that was not the case for the commercial customers. There wasn't such a gap between PowerStream south and Barrie. So I think that's what you see most there.

MR. DAVIES: But is that the reason why there seems to be a larger effect of the changes from the originally filed application to the update on the GS less-than-50 class than the residential?

It just looks like, when you compare the numbers, that the GS 50 has a larger impact than the residential.

MR. MACDONALD: I don't have -- I didn't do a comparison of this table with the update with the prefiled evidence, so the delta, I don't have that in front of me.

MR. DAVIES: Could you perhaps provide a comparison of the changes in terms of the impact, the bill impacts in the application as filed and the bill impacts in the update? And perhaps just provide an explanation of the changes in -- particularly in those two classes as to why the GS seem to be larger than the residential?

MR. MACDONALD: Sure. So the two classes, residential and small commercial?

MR. DAVIES: Yes.

MR. MACDONALD: Sure.

MS. SEBALJ: JT1.9.

UNDERTAKING NO. JT1.9: TO PROVIDE COMPARISON OF THE BILL IMPACTS IN THE APPLICATION AS FILED AND BILL IMPACTS IN THE UPDATE.

MR. DAVIES: Thank you. Those are all the questions I have for this panel.

MS. SEBALJ: So that's it for Board Staff. I think that leaves you, Jay.

QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: Nobody else has questions or they've already... all right. I only have two questions for this panel, and they're really just clarifying questions.

The first is I'm looking at schedule -- issue 2.1, page 1, which is CCC Interrogatory No. 7. And this says the revenue requirement impact of changing from a full-year to half-year depreciation is $2.1 million. And -- do you have the reference for that?

And then if you go to issue 1.0, SEC Interrogatory No. 2, you're basically asked the same question, and your answer is $1.5 million.

And I would just like you to reconcile those two figures. I may be just missing something, but...

MR. MACDONALD: I apologize. Can we have the reference for the first one?

MR. SHEPHERD: The first reference is CCC No. 7, which is under issue 2.1.

MR. MACDONALD: Page 1 of 15?

MR. SHEPHERD: Yes.

MR. MACDONALD: Okay.

MR. SHEPHERD: And the second is SEC No. 2 under issue 1.0, which is page 13 of 21.

MR. BARRETT: I believe that we have a correction to SEC No. 2.

MR. SHEPHERD: Yes? Okay. Have you filed it or -- and I just missed it? Or is it to be filed?

MR. BARRETT: It hasn't been filed with the Board, no. I think we were planning on -- I can't locate that correction at the moment, but I believe that the tax amount was understated, and that the result puts it basically similar to the response to CCC. But I would have confirm that for you.

MR. SHEPHERD: I wonder if you could undertake to refile SEC No. 2 corrected.

MR. BARRETT: Mm-hmm.

MS. SEBALJ: That's JT1.10.

UNDERTAKING NO. JT1.10: TO REFILE RESPONSE TO SEC INTERROGATORY NO. 2.

MR. SHEPHERD: And then my second question -- which I'm petrified is a stupid question, but I'll ask it anyway -- is in Board Staff 2 at page 4 of 21. This is under issue 1.0.

And you refer to the fair market value increase on the Aurora assets as of November 1, 2005. And I just want to confirm that that bump in the value of the assets for fair market value purposes, that's not in your rate base, right?

MR. BARRETT: That's correct.

MR. SHEPHERD: That's a difference between your financial accounting and your regulatory accounting, which is, in essence, a permanent difference?

MR. BARRETT: Correct.

MR. SHEPHERD: So when I see here that you -- that there was supposed to be an adjustment to 1575, that adjustment that you hadn't made was actually to back out the increase, right?

MR. BARRETT: That's correct.

MR. SHEPHERD: So now it's been done?

MR. BARRETT: That's correct.

MR. SHEPHERD: Then it wasn't as dumb a question as I thought. Thank you very much. Those are my questions.

MS. SEBALJ: Unless anyone has any questions or follow-up questions, thank you very much to this panel. And Jay is in the room so -- are you planning to go back?

MR. SHEPHERD: No, I'm done. I'm here for the duration.

MS. SEBALJ: So I think the plan was to move next to -- well, we went to technical ahead so --

MR. SHEPHERD: And we've done load forecast?

MS. SEBALJ: We have done load forecast.

MR. SHEPHERD: So rate base?

MS. SEBALJ: Yes, rate base.

MR. DAVIES: Excuse me, I just realize that cost allocation should be going to this panel.

MR. MACDONALD: Yes.

MR. DAVIES: Because AMPCO got in touch with us this morning, and then they said that they were not able to be at the technical conference today. But they had a couple of questions.

So I presume perhaps what we could do is I could just read AMPCO's questions out, and you can see if you can answer them, or if you want to take an undertaking on them.

MR. MACDONALD: I got them as well early this morning and, I think -- let's try it. I think they are something you have to go away and do some analysis, but we can try.

MS. SEBALJ: Would you prefer just to read them into the record, and we can mark them as undertakings? Or do you have some form of verbal response?

MR. MACDONALD: No, we didn't have time to prepare a response. So I think it's best if we -- whatever is most efficient, but we'll take them away.

MS. SEBALJ: Frankly, why don't we mark the questions, unless your counsel has any objection. Why don't we just mark the questions provided by AMPCO as an exhibit, and then refer that, refer to that Exhibit as undertaking JT1.11, which is to answer the AMPCO questions.

MR. MACDONALD: Yes, their questions have been limited to our large user customer class, and there were a couple more questions that came in this morning.

MS. SEBALJ: All right. So I'm going to mark it, mark the email from Shelly Grice dated September 24, 2012, which contains the two questions, I believe, or three questions?

MR. DAVIES: Two.

MS. SEBALJ: Two questions as K T1.2, and then I'm going to mark JT 1.11 as an undertaking to provide responses to the questions in KT1.2.

EXHIBIT NO. KT1.2: AMPCO TECHNICAL CONFERENCE QUESTIONS

UNDERTAKING NO. JT1.11: TO RESPOND TO AMPCO TECHNICAL CONFERENCE QUESTIONS FILED AS EXHIBIT NO. KT1.2

MR. MACDONALD: That would be fine.

MS. SEBALJ: Okay. I guess -- apologies, Board Staff has a couple of questions on cost allocation. So we're going to go ahead and ask those now.

MR. DAVIES: The first question relates to VECC Interrogatory No. 43.

MR. MACDONALD: Mr. Davies, which tab are you under?

MR. DAVIES: It is under tab 71, in binder number 3.

MR. MACDONALD: The IR again please?

MR. DAVIES: It is number 43 of VECC.

MR. MACDONALD: Yes we have it, thank you.

MR. DAVIES: In the response, you state that due to staff attrition, you were unable to locate the analysis underlying the average street lights per connections for either Barrie or PowerStream, and that you used a sampling methodology to calculate the number of street lights per connection.

And then you go on to say that the results of this sample indicate an afternoon average of 2.88 street lights per connection, with a range from one to twenty-six lights per connection. "PowerStream proposes to update the cost allocation to reflect this sample," end quote.

So could you provide any details regarding any changes to your cost allocation as a result of this change in input assumption?

MR. BARRETT: We did input this. We found that it did move the street lighting, which I believe was over 1.0 or over a hundred percent revenue cost ratio below one hundred, but it was still within the Board approved range.

MR. DAVIES: Thank you. So would it be -- would it be your view that the resulting changes from this were not significant enough to make any adjustments to the large use class and rebalance to the street lighting class?

MR. BARRETT: We did not redo the full cost allocation because of the time and effort involved. But it would be correct to say that there would not -- the adjustment from the large use class would be distributed to other classes and have a fairly minor impact. It would not go to the street lighting class after this revision.

So there would be no adjustment to -- cost allocation adjustment to street lighting, but that adjustment from the increase in large use, the redistribution of revenue, would be spread among other classes.

MR. DAVIES: Thank you. The other question related to the following interrogatory, which was VECC No. 44.

And this interrogatory asked you to provide a schedule that set out the capital costs for smart meters by customer class, and the resulting per customer per smart meter capital cost by class, consistent with previous smart meter applications.

And in your response, you stated that the recent installed costs were used to complete sheet I 7.1 of the cost allocation model, and that the smart meter capital for the GS less than 50 class was understated in the cost allocation model by approximately $1.12 million, and that the smart meter cost did not account for the more expensive pricing for three phase meters installed in 2010. Is that correct?

MR. BARRETT: That is correct.

MR. DAVIES: So as a result of this, would you consider that any changes to the cost allocation model as filed would be necessary to reflect that understatement of smart meter capital for the GS less than 50 class?

MR. BARRETT: Yes, I believe we confirm that in this response.

MR. DAVIES: Would you plan to do that, or --

MR. BARRETT: I thought there was a response where we had agreed to do that, and proposed to do that.

MR. DAVIES: So that would be just one of the ongoing updates that you were --

MR. BARRETT: That's correct.

MR. DAVIES: Thank you. Those are all the questions.

MS. SEBALJ: All right. I think you're really free to go this time and I note that it's five to eleven, which would be the normal – eleven would be the normal break time, so why don't we take a break until say 11:15, and the rate base panel will be next. Thanks.

--- Recess taken at 10:56 a.m.

--- On resuming at 11:16 a.m.

MS. SEBALJ: So why don't we get started again? I guess just before you introduce the rate base panel, the company has provided a response to a question from Board Staff, which is the revenue requirement impact of the August 31st update broken down by the various factors, and I have copies of it here. I'm going to mark it as KT1.3.

EXHIBIT NO. KT1.3: DOCUMENT ENTITLED RESPONSE TO BOARD STAFF QUESTION RE REVENUE REQUIREMENT IMPACT OF AUGUST 31 UPDATE, BROKEN DOWN BY VARIOUS FACTORS.

MS. SEBALJ: Why don't we introduce this panel?

MR. MACDONALD: Thank you, Ms. Sebalj.

POWERSTREAM INC. – PANEL 3, RATE BASE AND CAPITAL

Tom Barrett

Bill Schmidt

Colin Macdonald

Shelly Cunningham

Ted Wojcinski

Mike Matthews

So I'd like to introduce our rate base and capital panel. So we have Tom Barrett, manager rate applications; Bill Schmidt, VP of information services; I'm Colin Macdonald, VP rates and regulatory affairs; Shelly Cunningham, senior vice president of engineering; and Ted Wojcinski, VP of engineering planning.

MS. SEBALJ: I think we're going to start with Schools. Board Staff does have one -- unless you want us to go ahead with –– okay. Board Staff does have one question.

QUESTIONS BY MR. DAVIES:

MR. DAVIES: Thank you. Staff's question relates to Board Staff Interrogatory Response No. 13, concerning your program to replace underground cable.

MR. MACDONALD: We found it. Thank you.

MR. DAVIES: Looking specifically at your response to part c), in which you were asked whether there has been any quantitative evidence, such as declining service quality or reliability indicators, to show that there is a need to accelerate this program. And you state that, quote:

> "Cable-related failures amount to over 50 percent of the outages caused within the failed equipment category for the years 2009 to 2011, and are increasing year over year."

End quote. I'm just wondering whether you could clarify whether, when you talk about cable-related failures, you're only referring to underground cables, or if you were talking about all cables?

MS. CUNNINGHAM: To clarify, we are just talking about underground cables.

MR. DAVIES: Thank you. That's my only question.

QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: Well, I have more than one question. And let me start with a couple that arose in the non-rate-base evidence.

My first reference is -- the pages aren't marked so I have to figure out where it actually is. It's in the PowerStream presentation. This is J1, tab 1, schedule 1.1, appendix C, I think. And I can't find any numbers on the pages, but it's...

MR. MACDONALD: This is a slide presentation, Mr. Shepherd?

MR. SHEPHERD: Yes.

MR. MACDONALD: I apologize, some of them didn't have page numbers, but there should be a date at the front, which can help us.

MR. SHEPHERD: Sorry. Yes, December 14th, 2011.

MR. MACDONALD: I'm sorry.

MR. SHEPHERD: That's the one. It's appendix C, and it says 26 pages, and it's the 20th page and the 21st page I'm looking at. And they're headed up "Changes 2012 capital budget compared to 2011" and "Changes, 2013 capital budget compared to 2012."

Have you got that?

MS. CUNNINGHAM: Sorry, Mr. Shepherd, can you clarify again what it is that you're looking at?

MR. SHEPHERD: The December 14th, 2011 presentation. It's appendix C to the interrogatory responses, under issue 1.1.

MS. CUNNINGHAM: Now, was that filed -- under which response?

MR. SHEPHERD: Sorry, I didn't number them. It doesn't say what it was filed under. Appendix -- Exhibit J1, tab 1, schedule 1.1 appendix C. When you provided them, you didn't provide them attached to responses; you provided them attached to the whole package.

MR. MACDONALD: We've got it, thanks.

MR. SHEPHERD: So I'm looking at the 20th and 21st pages of that document.

MS. CUNNINGHAM: Yes, we have it. Thank you.

MR. SHEPHERD: You see there there's a line that says, "New CIS system"? In 2012, it's 12.9 million and in 2013 it's 5.3 million?

MS. CUNNINGHAM: Yes, correct.

MR. SHEPHERD: So two questions.

First of all, those are capital spending but neither would have closed in those years, right? They're actually closing in 2014, right?

MR. MACDONALD: That's correct. Our in-service date is end of second quarter 2014.

MR. SHEPHERD: Second thing is those numbers have been updated. These are what you presented to your board in 2011, but they've actually been updated in the rate application, right? These are no longer the correct numbers?

MR. MACDONALD: That's correct.

MR. SHEPHERD: Do you know what the correct numbers are for those two years? If you don't have them off the top of your head, I can find them. I just --

MR. MACDONALD: Mr. Schmidt will correct me, but it's around 32 million.

MR. SHEPHERD: 32 total over the two years?

MR. SCHMIDT: It's 34 million total to the in-service date of 2014.

MR. SHEPHERD: Is your mic on?

MR. SCHMIDT: Sorry, it's 34 million total to the in-service date of 2014.

MR. SHEPHERD: So it would include this 12.9 and this 5.3, plus some money in 2014, plus there were some overruns in 2013, right?

MR. SCHMIDT: I'm not sure I would call it an overrun. I like your previous word, of an update.

[Laughter]

MR. SHEPHERD: I'm sure you would. But it's coming in above budget?

MR. SCHMIDT: There is an earlier number. I think we're almost too early to be over budget. We're in early days. The project went through some re-scoping, but you're correct. The numbers -- there's a timing difference between the numbers.

MR. SHEPHERD: All right. That's the only question I had in there. And then I had another one related to that. Let me just find it.

You're including in –- so it's not coming into service, but you're including some amount in OM&A for this project, right?

And I'm just looking for the reference. I can't put my hands on it right now.

MR. MACDONALD: That's correct, Mr. Shepherd. We purchased the Oracle software and we are paying annual licence fees, which is an operating cost. And I'll let Mr. Schmidt correct me again, but I believe it's in the order of 500- to $600,000 a year, and that would go into revenue requirement in 2013.

MR. SCHMIDT: It is $530,000 per year.

MR. SHEPHERD: Why is it in revenue requirement before it's being used?

MR. MACDONALD: Because we've purchased the software, have it, and there's an ongoing licence fee. It's not capitalized with the project.

MR. SHEPHERD: The ratepayers aren't getting any benefit from it in 2013, right?

MR. MACDONALD: As to why it's not capitalized, it's, I believe, under IFRS. We've looked at the criteria. Under IFRS, we're not allowed to capitalize it, so we've expensed it.

MR. SHEPHERD: I understand that. That's not my question. I know why you haven't capitalized it.

What I'm trying to make clear is and trying to make sure I understand is that you're not actually using it in the test year, so the ratepayers are getting no benefit from it in the test year; is that right?

MR. MACDONALD: Yes.

MR. SHEPHERD: Thanks. So the next question is on J-1, tab 2, schedule 2.1, page 6. And this is SEC No. 8, the third page of that, which is page 6 of your answers.

And I guess I just want to make clear, and perhaps you can tell me, in this comparison between PP&E, which is -- this is is comparison between financial PP&E and calculated rate base, right? Table SEC 8-2?

MR. BARRETT: Yes, we have that.

MR. SHEPHERD: And you see that the Addiscott operations centre, for financial purposes, is listed as a capital lease, right? It's a capital asset.

MR. BARRETT: Under the accounting treatment, the building portion of the lease is capitalized.

MR. SHEPHERD: Right. And which year is that in this table? When does it kick in? Is that in 2011?

MR. BARRETT: I believe we took possession in the beginning of 2010.

MR. SHEPHERD: So the 2010 differential then would include that 15.4 million?

MR. BARRETT: It would include some of it, because of averaging of opening and closing.

MR. SHEPHERD: Okay, all right. And then the full -- the full impact would be in 2011. So of the 25 million dollar difference, 15 of it is Addiscott, roughly?

MR. BARRETT: That sounds correct.

MR. SHEPHERD: Okay. And then the next question relates to SEC IR No. 13, which is on page 14 under schedule --or issue 2.1.

And we asked for the business case for the new distribution operations centre, and you said there wasn't one. I've read through the process by which you made the decision, but I guess I don't understand.

You have a practice internally of business cases for major things, right? I don't understand why there wasn't one for this.

MR. MACDONALD: You're correct. We do have a practice of doing business cases for projects over a certain threshold. But despite that, a business case was not done for this project.

MR. SHEPHERD: And then I am asking why.

MR. MACDONALD: I'd ask Mr. Matthews to help me with that. Can you help me with why we didn't do a business case?

Mr. Matthews is our senior vice-president of planning and construction.

MR. MATTHEWS: So the reason that we did not do a business case for this project was it was actually a project that was necessitated by the fact that we were required to move. And sort of we looked at alternatives that were only available to us, which were very few. So an actual business case was not prepared.

MR. SHEPHERD: So this is the limited options you referred to you in your evidence. You only have certain available choices as to what you could do?

MR. MATTHEWS: That's correct.

MR. SHEPHERD: Do I take it from that then that, because you were forced to move, in effect, that the net effect of the change is a net cost?

Normally when you do a business case, you show in the long run it pays off. In this case, in the long run it won't -- it will just be an additional cost; is that right? That's what you expect?

MR. MATTHEWS: I guess that's what we would expect, yes.

MR. SHEPHERD: Thanks. Then my next question is on schedule 2 -- under issue 2.3, Board Staff No. 13. And it's page 4 of 77. This is a Weibull curve.

MR. MACDONALD: We have that, yes.

MR. SHEPHERD: Please, forgive me. My knowledge of Weibull curves is like this much, and I'm trying to make that as small as possible.

MR. MACDONALD: Mr. Wojcinski is going to try and help you.

MR. SHEPHERD: Thanks. Why is it this curve you used for this calculation?

MR. WOJCINSKI: This curve is a standard curve used in the industry that would represent, for cable replacement, typical life and failure rates.

MR. SHEPHERD: So this is a curve specific to cable, underground cable?

MR. WOJCINSKI: That's correct.

MR. SHEPHERD: But you have different vintages of underground cables. There are different curves for different vintages?

MR. WOJCINSKI: I guess you could say -- earlier cable, we would say has -- cable installed thirty years ago possibly would have a steeper curve, in the sense that the lifetime for that earlier batch of cable is less than the generation that, say, was installed from 1987 on.

MR. SHEPHERD: So you have like two different factors here. You have the fact that as something gets older, it's more likely to fail.

But then you have the factor that the older stuff was also not made as well -- or made differently, if you like -- and so it had a shorter life in the first place; right?

MR. WOJCINSKI: Correct.

MR. SHEPHERD: Okay, I understand. So did you actually do a calculation where you looked at your cable population by vintage, to see whether a different curve for the old stuff and for the new stuff would give you more information?

MR. WOJCINSKI: This curve here would represent -- currently be representative of the cables that we are trying to target in our replacement program at this time.

We did not look or put a curve to, say, the cables in what we classed our group 1, two and three cables.

MR. SHEPHERD: So this is only the old stuff? This is a curve for only the old stuff?

MR. WOJCINSKI: This is a curve that is superimposed over our cable population, and it would represent a curve typical of failure probability for the cables in the -- and in the cables that are aged in the group that we're targeting for cable replacement.

MR. SHEPHERD: Sorry, now I'm confused. I'm quite sure it's my fault, but you'll help me anyway.

The population here is the population of all your cable, right?

MR. WOJCINSKI: That's correct.

MR. SHEPHERD: The curve is a combined curve for the failure rates of all your cable?

MR. WOJCINSKI: I would say that this curve here is used for a cable population. But it is primarily – the parameters of the curve would be based on a number of factors that we're using, and primarily for our older cables, for our group 1 and 2 type cables.

MR. SHEPHERD: Sorry, that doesn't help me. What I'm trying to understand is this -- does this curve take into account the fact that some cable is old and some cable is new.

Or is this -- if you just did this for the population of old cable, right, the stuff that was installed before 1987 -- if you did this chart, would you use the same curve or a different curve?

MR. WOJCINSKI: I'd probably use the same one. This curve is an average. It basically looks at cable in a specific age group, and says the failure probability is a certain number.

It doesn't necessarily mean that cable will fail at that time, but that's the probability of that age group.

MR. SHEPHERD: I understand. That part I understand. So what I'm trying to understand is if you did a failure probability analysis for just the stuff that was done --

that was installed before 1987, the old style cables, would you use this same curve, number one, or a different one?

MR. WOJCINSKI: It could be worse.

MR. SHEPHERD: And then secondly, conversely, did you -- if you did a failure probability for stuff that's been installed since 1987, would you use a flatter curve because it has a longer life?

MR. WOJCINSKI: There may be that change in the slope of the curve that would basically reflect the population under study; if we felt it had a longer life, than the failure rate may change.

MR. SHEPHERD: Okay. But you didn't do those two different calculations?

MR. WOJCINSKI: No.

MR. SHEPHERD: You did one combined calculation?

MR. WOJCINSKI: Right.

MR. SHEPHERD: Is it fair to say that this -- for the cable in this population that is from one to 26, this curve isn't really applicable, because this is an average that includes the old stuff?

MR. WOJCINSKI: It's an average. If you look at the age from one to 26, you'd expect very little failure in that category anyway. If there is a change in the curve, it would be very, very minor.

MR. SHEPHERD: All right. My next question is on -- all the rest of them are in issue 2.3, and this is at page 12 of 77, CCC Interrogatory No. 8. And I guess I wasn't quite sure of your answer, and I just want to understand.

Your capital budget is based on what you think you need to spend, right? It's not based on whether you have full-year or half-year depreciation; it's based on what you need to spend, right?

MR. MACDONALD: That's correct. In our evidence we explained the process by which we build our capital. It's not connected to the depreciation.

MR. SHEPHERD: Exactly. So then I don't understand how -- whether the Board approves full-year depreciation or not would affect your capital spending?

MR. MACDONALD: It wouldn't affect the level of capital spending. It would affect our ability to pay for it through rates. It doesn't affect how the plan is developed.

MR. SHEPHERD: So where it says PowerStream may need to defer work, that's not correct? Your capital budget is your capital budget; it's not going to change whether you have half-year or full-year depreciation?

MR. MACDONALD: Which line are you on?

MR. SHEPHERD: Second-last line:

> "With less funding, PowerStream may need to defer capital work."

Or maybe that's dealing with the five-year plan and not with the test year?

MR. MACDONALD: I think what's meant there is the idea of trying to maintain a certain level of return, the allowed rate of return. So in order to meet -- it doesn't say that explicitly, but in order to meet our deemed rate of return equity, all the other costs eat into that. So I think that's what's alluded to there.

MR. SHEPHERD: So I'm still trying to understand. In the test year -- not in the subsequent years, but in the test year -- is it your expectation that if you -- if the Board does not approve full-year depreciation, your capital budget will be reduced?

MR. MACDONALD: No. I think this line does refer to the out years.

MR. SHEPHERD: Thank you. My next question is issue 2.3, page 23 of 77, and this is your response to CCC No. 18. And basically this -- and this may actually end up being a question. It's under issue 2.3, but it may be an OM&A question. I don't know.

The negotiated lease rates have an annual return of 7.8 percent, and so I guess I have two questions on that. I was surprised how high it was.

So do you have some documentation that that's a reasonable level? Number one. And number two, do you have a calculation of that that shows how you got from capital cost to lease rate, using that 7.8 percent? Do you have that calculation?

So two questions.

MR. BARRETT: These values were determined with our real estate consultant, so I don't have any evidence other than what they could provide in terms of these being the normal rate of return, or what's called a cap rate type of value.

MR. SHEPHERD: They gave you a report of some sort? Or a letter, or...

MR. BARRETT: I believe they have given presentations. I don't know offhand which they are.

MR. SHEPHERD: If you haven't filed in the evidence the documentation that they gave you that said the right range is 7.5 to 8 percent, could you provide that? I looked for it in the evidence and I didn't see it, but I may have missed it.

MR. MACDONALD: Mr. Shepherd, we'll have to look when we're back in the office. I'm not trying to not provide it; I'm just not sure exactly what we have.

MR. SHEPHERD: Can I get an undertaking to provide whatever you have that shows us that this 7.5 to 8 percent is the appropriate range according to your consultant?

MR. MACDONALD: Yes.

MS. SEBALJ: It's JT1.12.

UNDERTAKING NO. JT1.12: TO PROVIDE SUPPORTING DOCUMENT TO SHOW THAT 7.5 TO 8 PERCENT IS AN APPROPRIATE RANGE ACCORDING TO CONSULTANT.

MR. SHEPHERD: The second question was: The 7.8 percent calculation, do you have that calculation? Can you show us, give us the spreadsheet?

MR. MACDONALD: We can provide that, as well.

MR. SHEPHERD: That should probably be a separate undertaking.

MS. SEBALJ: JT2.13.

UNDERTAKING NO. JT1.13: TO PROVIDE SPREADSHEET WITH

7.8 PERCENT CALCULATION.

MR. SHEPHERD: Then the next is on page 37 of 77, Energy Probe Interrogatory 77, and what I'm trying to understand -- do I understand correctly that you were asked to basically model what would happen if you treated the lease as a capital lease for regulatory purposes? Is that what you're doing here?

MR. BARRETT: I believe that the question asked what was the revenue requirement associated with the capital lease treatment, which is provided.

MR. SHEPHERD: But I didn't understand that you were treating it as capital in your application. I understood that you were treating it as a lease in your application. Am I wrong?

MR. BARRETT: The lease -- the accounting treatment required was to account for the –- when you go through all the criteria, is that the portion of the rent or lease amount that relates to the land is treated as an operating lease, and the portion that relates to the building is treated as a capital lease.

MR. SHEPHERD: I understood that's the accounting treatment. I'm asking about the regulatory treatment. The regulatory treatment --

MR. BARRETT: I'm not aware of any difference between the two.

MR. SHEPHERD: So you've filed for this on the basis that it's in rate base?

MR. BARRETT: On the building portion, yes, that's correct. It's been put in rate base.

MR. SHEPHERD: Ah. See? That's why we have technical conferences, to clear these things up. All right.

Are you aware of any precedents that the Board has allowed capital leases as rate base?

MR. BARRETT: The one that comes to mind, top of mind, is that the 2006 rate model included capital leases in the calculation of rate base.

MR. SHEPHERD: Where was I? Gee.

My next question, then, is on page 48 of 77, and these are changes in your capital, net capital spending in 2012 and 2013.

Are there -- have you made adjustments -- are these included in your new revenue requirement work form, these changes?

MR. MACDONALD: No.

MR. SHEPHERD: They're not material enough to change, or you're just going to capture them the next time you update the work form?

MR. MACDONALD: I believe we held them for a future update.

MR. SHEPHERD: Okay. But they wouldn't have a significant impact, right? These are capital, right?

MR. MACDONALD: Not to the degree OM&A would, for example, yes.

MR. SHEPHERD: Okay. And then I believe -- hang on. Let me see whether I've missed anything. Oh, yeah.

So page 55 of 77, this is SEC No. 17 under issue 2.3.

We asked for a table showing the dollar amounts of -- sort of like a vintage analysis of assets approaching their useful life. And we asked for 10 years, and you gave us to 2014, I guess. But part of your -- part of what you're trying do in this application is say you have ageing infrastructure, and stuff is going out of service, et cetera.

So we want to get a projection out of what is going to reach the end of its useful life in each category.

And presumably you've done that, because you had to for IFRS. So I wonder if you can provide that.

MR. BARRETT: I believe there was some concern over projecting too far out, in terms of you wouldn't pick up some of the newer assets. But we do have a fixed asset system; presumably we could produce some indication of the historic value of assets reaching end of life.

MR. SHEPHERD: Yeah, I'm not asking for a forecast. I'm asking for a printout from your asset management system which -- because your asset management system has the useful lives and the start point in it, right. So it predicts when assets will reach the end of their useful life.

It won't predict when they have to be replaced because that will be a Weibull curve, right? But it will predict when they reach the end of their useful life.

So if you can give that to us, then we can track when things are going to reach the end of their useful life.

MR. BARRETT: I believe we can provide that for the

October 1st date; we'll certainly try to. The only proviso I would make on it is that, of course, it would only include assets currently in our rate base.

MR. SHEPHERD: Those are actually the ones we're concerned with anyway. The aging infrastructure is stuff that’s relatively long lived anyway, right?

The fact that the computer systems you buy five years from now will be gone ten years from now doesn’t -- we know that.

MR. BARRETT: Obviously, the system can produce, based on the information that’s in there – budgeted information is in there, just actual assets.

MR. SHEPHERD: But none of your primary infrastructure assets have lives less than then years anyway.

MR. BARRETT: Correct.

MR. SHEPHERD: I think we're okay anyway. My last question then --

MS. SEBALJ: Sorry, that is JT 1.14.

UNDERTAKING NO. JT1.14: TO PRODUCE A PRINTOUT FROM ASSET MANAGEMENT SYSTEM SHOWING WHEN ASSETS IN RATE BASE WILL REACH END OF USEFUL LIFE, TO 2023

MR. SHEPHERD: Table EP 5a), and this is --

MR. BARRETT: Before we move on, can we read back exactly what the request was, the number of years?

MR. SHEPHERD: To 2023. Or 2, I guess -- ten 10 years, 2023 is what we’re looking for.

MR. BARRETT: Thank you.

MR. SHEPHERD: So my last question relates to Energy

Probe Table 5A. This is J1, tab 2, schedule 2.3, table EP 5A, page 1 of 3. Do you have that?

MS. CUNNINGHAM: We have it, thank you.

MR. SHEPHERD: And then you have also a five-year capital work plan, which is appendix 3 of -- I don't even know what its evidence reference is. But you know this document, right, the five-year capital work plan?

MR. MACDONALD: I think it's under appendix B, that follows that.

MR. SHEPHERD: The five-year capital work plan has its own forecast of capital spending, which overlaps this table from -- table EP 5A.

Is it possible for you to reconcile the two tables and just identify the major differences between the two, and why?

I don't need the small ones. You know, if it's a five million dollar difference, then that would be useful.

MS. CUNNINGHAM: It might be difficult to do that. As far as our process goes, that particular five-year plan was created early in 2011.

MR. SHEPHERD: Yes.

MS. CUNNINGHAM: Then the business units put their projects forth. During that time frame, the projects they put forth compared to the five-year plan can change.

MR. SHEPHERD: Understood.

MS. CUNNINGHAM: Then once they put their projects forth, we go through an optimization process. And so then it can further change at that point in time. So there's like two times that it can change.

MR. SHEPHERD: I’m assuming there will be differences. In fact, when we get to O&M, I'm going to ask you about a whole lot more differences that occur in the budget process.

What I'm looking for are sort of the big ticket items. The five-year plan assumed that X would happen -- like the CIS, for example, would happen in 2012, and it happened in 2014, that sort of thing.

MS. CUNNINGHAM: I think we can provide that, as long as we can stick to the large items.

MR. SHEPHERD: We don't need to count the paper clips here. This is about things that have a big impact.

MS. CUNNINGHAM: Yes.

UNDERTAKING NO. JT1.15: FOR ENERGY PROBE TABLE 5A AND THE 5-YEAR CAPITAL WORK PLAN IN APPENDIX B, TO IDENTIFY AND EXPLAIN THE MAJOR DIFFERENCES.

MR. SHEPHERD: Thanks, and that's all my questions. Thank you very much.

MS. SEBALJ: That's JT 1.15. Any other questions from anyone in the room? All right. Well, thank you very much, panel.

I think we can move on to O&M. My plan was to take lunch at one, because we take a break at eleven. But if parties want to take the lunch break now --

MR. SHEPHERD: I would prefer to go after lunch for O&M. If other people can take up the time until then, I’m happy. But if they don’t, then --

MS. SEBALJ: That’s why I asked the question; I just want to make sure. Randy, do you have questions for the O&M panel?

MR. AIKEN: I do, but not enough to take us to one.

MS. SEBALJ: Do you have questions? Is there any objection in the room to us taking lunch now until one? Is that adequate time? That way we can be a little more fruitful afterwards?

MR. MACDONALD: We're flexible, so that's fine.

MS. SEBALJ: Okay. I think that's a better use of everybody's time, so that everybody is ready and we can just -- we're clearly going to be done -- unless, Jay, you have three or four hours planned, we’re going to be done today. So I don’t think it makes any difference when we --

MR. SHEPHERD: Do you want me to have three or four hours?

MS. SEBALJ: No -- well, it's not me. I’m not impacted. So why don't we take lunch until one. Is that enough time?

MR. MACDONALD: Yes, thank you.

MS. SEBALJ: Thank you.

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

--- On resuming at 1:00 p.m.

POWERSTREAM INC. – PANEL 4, OM&A

Mike Matthews

Barb Gray

Carolyn Young

Colin Macdonald

MS. SEBALJ: All right. Why don't we get started with the OM&A panel? I know that various parties in the room have questions, but we have not worked out an order. Did you just want to go ahead, Martin, with our short question, and then we can...

MR. DAVIES: Okay. Two.

MS. SEBALJ: Two short questions.

MR. DAVIES: Thank you.

QUESTIONS BY MR. DAVIES:

Staff's first question relates to your response to Board Staff Interrogatory No. 30.

MR. MACDONALD: Mr. Davies, I wonder if I could maybe introduce the panel quickly, since there are new players here.

On my far left is Mike Matthews, our senior vice president of operations and construction; Barb Gray, our senior vice president of HR; Carolyn Young, VP of finance, you met. And that's it.

So we have found Board Staff No. 30.

MR. DAVIES: In this interrogatory, you were asked about the creation of your project management office, enterprise risk and internal audit, and the legal department, and the new positions that were created in those departments.

And in your response, you said that of the 18 additional staff that were hired to implement these various organizational initiatives, eight positions were presently vacant, with three to be hired in 2012 and the remaining five to be hired in 2013.

Is that a correct summary of what you said?

MS. GRAY: Yes, that's correct.

MR. DAVIES: Could you tell us when in the two years you're expecting those eight positions to be filled?

MS. GRAY: So the first two in 2012, security admin analyst and senior business analyst, are in recruitment as we speak, so they're being currently –– an interview process is happening.

The senior internal auditor, we're anticipating at the balance of the year, and the 2013 -- are various throughout 2013, so some scheduled at the beginning and some mid-year.

MR. DAVIES: Thank you.

Now, in the same response, you also provide a table, which is on page 4 of 81 or the last page of the interrogatory, which is tabled Board Staff No. 30(b), "technology strategy staff costs."

And this table shows costs for the project management office, enterprise risk and internal audit, legal and information services, and I'm just wondering if it would be possible for you to explain the changes in each of these costs between 2012 and the 2013 test year.

MS. GRAY: Sure. I can try. So in the PMO, there are already -- the positions were filled, and so there's just less consulting costs.

In the enterprise risk internal audit, primarily -- there is a little more in consulting, but primarily it is the full year of the senior internal auditor.

Legal is pretty much the same.

And information services, it's the addition of the staff on the previous table.

MR. DAVIES: Thank you.

The other area of questions relate to your response to Board Staff Interrogatory No. 40. And in this interrogatory it was asking about a table in Exhibit D1, tab 5, section 4, page 11, which was table 8, which was entitled, "Compensation, average yearly incentive dollars."

And this table provided changes in the incentives for the categories of senior management, management and non-union. And in the interrogatory, you are asked to provide explanations for the 2011 to 2013 changes for each of these categories, including an explanation as to why the senior management incentives increased while the non-union incentives decreased.

And part of your response was that in 2011 the non-union category's actual incentive pay was higher than estimated and therefore, based on historical trends, the 2012 and 2013 budgets should have been higher. And you concluded that quote:

> "The non-union incentives are not actually decreasing."

Now, looking at the numbers in table 8, the non-union incentives are, I believe, shown as $5,338 in 2011, 4,291 and 4,481 for 2012 and 2013 respectively. I'm just wondering, could you clarify what you meant by the non-union incentives are not actually decreasing?

MS. GRAY: Sure. So if you're looking at the table -- and it would appear that they are decreasing. However, based on our actuals -- so those are the 2012 and 2013 budget amounts -- and based on our actual historical trends, we're actually under-budgeting. So if we were to re-budget based on historical trends, those two numbers would be higher, and therefore the incentive compensation is not actually declining.

MR. DAVIES: Thank you. And those are all Staff's questions.

MS. SEBALJ: Who drew the short straw among the intervenors?

QUESTIONS BY MR. AIKEN:

MR. AIKEN: Apparently I have it. I won't be long.

My questions all relate to OM&A and other revenue. So if we start with Interrogatory No. 53 -- this is one of the technical conference questions that was filed on Friday -- I just want to try and follow the linkage between some of these questions and some of the responses. I'm starting with No. 53.

And the question refers to a response that indicates that OM&A, the impact on OM&A is an increase of $3.9 million due to having to record this amount as other revenue rather than as a reduction to OM&A. And the response goes on to indicate why you're doing that, and I understand that.

And then if you go to Interrogatory No. 54, in part (b), and this had to do with the reduction in the cost of joint services shown in the OM&A table, part (b) says:

"As of the fall of 2011 PowerStream no longer provides water and wastewater billing and collection services on behalf of the City of Barrie. As a result, the cost of joint services in 2012 and '13 was reduced relative to 2011."

So when you look back at the original table -- and this is Exhibit J1, tab 4, schedule 4.1, appendix D, and it's on the second page, where you reduce the OM&A expenses by the cost of the joint services, my question there is: Why, under MIFRS, are you reducing the OM&A if you've already removed it from the OM&A? Or is this what you actually are removing?

MS. YOUNG: If I understand your question correctly, so those are the joint services, which -- the one -- the intervenor question that you asked, No. 54, specifically talks to the City of Barrie water and sewer, which we no longer perform.

Those are the other joint services that we have included in that, which are different cities, Markham and Vaughan, who still have joint services.

MR. AIKEN: Okay. Then if you go to J1, tab 4, schedule 4.1, Energy Probe No. 25, part d), the answer says that the shared services revenue removed from OM&A and reported as other revenue to meet IFRS requirement is 3.9 million. And the company confirms that this amount is part of the 12.44 million IFRS impact that is shown on the cost driver table.

How does that 3.9 million relate to the cost of joint services that's removed in the table we were just looking at?

MS. YOUNG: Just to clarify, so you want us to reconcile it's the 3.9 million in 25 -- EP 25 number d), and then this schedule -- can you give me the reference to the other schedule that you wanted to reconcile?

MR. AIKEN: Yeah, it's Exhibit J1, tab 4, schedule 4.1. appendix D, page 2.

MS. YOUNG: We can reconcile those two numbers for you offline, if that's helpful.

MR. AIKEN: Okay.

MS. SEBALJ: So I'll mark it as an undertaking then, JT1.16.

UNDERTAKING NO. JT1.16: TO RECONCILE 3.9 MILLION DIFFERENCE BETWEEN EXHIBIT NO. J1, TAB 4, SCHEDULE 4.1, APPENDIX D, PAGE 2 AND INTERROGATORY NO. 53

MR. AIKEN: I want to make sure I've got this 3.9 million dollar change -- make sure I understand it. So if you go to Table II of Exhibit D1, tab 1, schedule 1, this is the OM&A cost driver summary. So again, D1, tab 1, schedule 1.

My understanding from the interrogatory response is that the $3.9 million used to be used as an offset to OM&A costs under C GAAP. And now under MIFRS, you've effectively increased OM&A by 3.9 million, and you are showing this 3.9 million as other revenue; it’s other unregulated revenue.

And then in this cost driver table, that 3.9 is part of the 12.4 million IFRS impact.

My question is why wouldn't the 3.9 million also be shown as a reduction in OM&A cost, because my understanding is that 3.9 million in cost, similar to the revenues, is now being recorded in account 4380, or whatever it is, other unregulated expenses. Do you see my confusion?

MS. YOUNG: Yes, I can see your confusion, and I can reconcile that for you through an undertaking.

MR. AIKEN: Okay. And then also, just before we get to that undertaking, in Table II, is it true that the starting point, the 43.2 and the 9.8 million dollar figures for PowerStream and Barrie actual, they would have had reductions in OM&A related to this revenue that's now being shown separately under IFRS?

MS. YOUNG: Yes, that is correct.

MR. AIKEN: Would it be possible to get the figures for both of those two line items? Because what I'm looking for really on this OM&A cost driver is the same starting point as the ending point.

Rather than having the $3.9 million shown as a cost driver, I would like to see what the real starting point in 2009 PowerStream and 2009 Barrie actual is on the same basis as where we end up, in other words with that revenue not showing up as a reduction to OM&A.

MS. YOUNG: Without taking out the effect of modified IFRS, right? So you're saying the same starting point --

MR. AIKEN: Yes.

MS. YOUNG: -- even without changed accounting processes, and you want to see the reconciliation.

MR. AIKEN: That’s right.

MS. YOUNG: Yes, we can do that.

MR. AIKEN: Okay.

MS. SEBALJ: So that two-part undertaking is JT1.17.

UNDERTAKING NO. JT1.17: TO EXPLAIN WHY THE 3.9 MILLION IS NOT SHOWN AS AN OM&A REDUCTION AND PROVIDE REAL STARTING POINTS FOR 2009 POWERSTREAM AND BARRIE ACTUALS.

MR. AIKEN: And then my final question is on a related area, and this is on other revenue, and this is Exhibit C2, tab 1, schedule 3. And it's page 1 of 2, which is a detailed schedule of appendix 2-C, and it has to do with accounts 4375 and 4380, the amounts you're removing from other revenue.

So there's a net reduction of about $3.7 million, I think, that you're removing. And my understanding is that there are three components to this. One is PowerStream solar; there's revenues and costs associated with it.

There are revenues and costs associated with CDM, OPA programs, and then there are revenues and costs associated with the water and sewer, and payroll, and cashier, and street lighting services, all these other services you're providing to Vaughan and Markham and whomever else.

My question is, can you provide a breakdown of those three components, being solar, CDM and everything else, into revenues and expenses for the test year?

MR. MACDONALD: Yes.

MR. AIKEN: Okay.

MS. SEBALJ: JT1.18.

UNDERTAKING NO. JT1.18: TO PROVIDE A BREAKDOWN OF THREE COMPONENTS, BEING SOLAR, CDM AND RELATED, INTO REVENUES AND EXPENSES FOR THE TEST YEAR.

MR. AIKEN: And I think those are my questions, thanks.

QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: I assume I'm next. I have more questions than Randy.

I'll start with SEC No. 3, under issue 1.0. Everybody else in the room is used to my coughing attacks. It's quite normal.

What we asked for in particular was -- there were documents filed in confidence in EB-2008-0335, which of course everybody who got them has subsequently had to destroy them, and we would like you to file them now.

They are no longer confidential, presumably, because that stuff has all happened. So we would like to compare what you forecast to the Board in that proceeding with what you're actually reporting as merger savings. Can you do that?

MS. GRAY: So that would be filed upped this IR response as appendix A.

MR. SHEPHERD: So I'm looking at appendix A --

MS. GRAY: Summary of merger savings by department -- let me just confirm that. Yes, this was what was filed.

So it says on the top "Summary of merger savings by department."

MR. SHEPHERD: I'm just looking for that document, appendix A. That's 1.1. Where is appendix A? This is one page?

MS. GRAY: That's correct. That's what was originally filed.

MR. SHEPHERD: This is not the only thing that was filed. I know there were several pages filed. I was in that proceeding. So I would like the rest of it, if I could. I'm quite sure there were pro forma financial statements and all sorts of stuff like that filed, to forecast the results of the merger and the savings that would occur.

MR. MACDONALD: Our understanding is that this appendix A that Ms. Gray referred to was the piece that was filed in confidence in that proceeding in December 2008. There are other -- I remember other pieces, like pro formas, but I think those are on the public record.

MR. SHEPHERD: You mean I didn't have to destroy them?

MR. MACDONALD: I remember it very well. And Ms. Gray and I were hunting and this is -- this is, as far as we know, what was filed in confidence on that day.

MR. SHEPHERD: My recollection is that there were several pages filed in confidence, but you're telling me this is the only confidential document in that proceeding?

MR. MACDONALD: From our records, yes.

MR. SHEPHERD: Okay. And there were documents, pro forma financials and things like that, filed?

MR. MACDONALD: I'm going from memory, but I do recall, yes.

MR. SHEPHERD: And they referred to merger savings and should -- in fact, they tracked how the financials were created, showing the merger savings that occurred; isn't that right?

MR. MACDONALD: That's what I recall, and actually in the actual template that forms the application, some of those numbers were in there, as well.

MR. SHEPHERD: I wonder if you can file those documents that refer to the merger savings.

MR. MACDONALD: Well, there is a whole web drawer full of different documents under that docket number. I'm not sure...

MR. SHEPHERD: See, the problem is they're not in evidence in this proceeding, so either we can file them or you can file them. Somebody has to file them in this proceeding. Obviously, we don't want the whole application and all the evidence, but there were -- most items in that proceeding didn't relate to savings, so we were only looking for the items that related to the savings.

Can you do that?

MR. MACDONALD: The question is to locate in that proceeding the documents that relate to -- that identify future savings from the merger? Yes, we can do that.

MS. SEBALJ: That's JT1.19.

UNDERTAKING NO. JT1.19: TO IDENTIFY DOCUMENTS RELATING

TO FUTURE SAVINGS FROM MERGER.

MR. SHEPHERD: Next question is -- actually, I'll come back to this one. I have to ask another question first before I ask this one. Otherwise I might look dumb.

The next question is: You filed a new revenue requirement work form in response to one of the staff IRs, right? And I have it here as table Board Staff 2-1. Do you have that?

MR. MACDONALD: That's correct.

MR. SHEPHERD: And I'm looking at page 7, which has the calculation of the deficiency. What I would like you to explain is: Am I right in understanding that it's the middle column that is your current request?

MR. MACDONALD: That's correct.

MR. SHEPHERD: So what is the right column? Is that just an artefact of the spreadsheet?

MR. MACDONALD: I'm going to ask Mr. Barrett that question.

MR. BARRETT: That's correct. It's just part of the standard Board form. It looks like another column in there for adjustments, I believe, maybe for after the Board's decision.

MR. SHEPHERD: So those aren't your numbers; they just came out of your filing of the first two columns?

MR. BARRETT: That's correct. They just carry over.

MR. SHEPHERD: I can ignore them?

MR. BARRETT: They are the same as the middle column.

MR. SHEPHERD: They're not the same as the middle column.

MR. BARRETT: Aren't they? Well, for the most part, they are. I apologize, then. They --

MR. SHEPHERD: It's an $8.8 million deficiency instead of 7.8, so that's what caught my attention.

MR. BARRETT: I would ignore those.

MR. SHEPHERD: Right. Thanks.

I'm looking at appendix B to issue 1.0, and the document is called, "Merger of PowerStream and Barrie Hydro." It doesn't have a date on it. Do you have that?

MS. GRAY: Yes, I do.

MR. SHEPHERD: Can you tell me what the date of this report is? Oh, I see it later. June 2011?

MS. GRAY: That's when it was issued, June 2011.

MR. SHEPHERD: I'm looking at page 5, and you -- on page 5, you talk about this merger integration dashboard. The dashboard was a report that the team gave to executive management on a regular basis, right?

MS. GRAY: It's actually a spreadsheet that we created to track and monitor the savings.

MR. SHEPHERD: But it's a reporting tool, right?

MS. GRAY: It's a reporting tool, yes.

MR. SHEPHERD: And it's to management or to the board of directors, or both?

MS. GRAY: The actual tool was used to calculate the savings and we reported to the board and executive management with the output of that dashboard.

MR. SHEPHERD: A simplified version, if you like?

Yeah. Okay.

Anyway, my actual question is: The 6.2 million in net savings, that's OM&A savings, right?

MS. GRAY: That's correct.

MR. SHEPHERD: And that's the 2010 number?

MS. GRAY: That's correct.

MR. SHEPHERD: 2010 actual, right?

MS. GRAY: Yes.

MR. SHEPHERD: Okay. In 2009 there were some savings, but they were small, right? Because you were still trying to sort of build into it and there were some transition costs, et cetera?

MS. GRAY: That's correct.

MR. SHEPHERD: Then some of those 6.2 million in savings weren't maintainable, so on the next page you said for 2011 it's 5.5?

MS. GRAY: That's right. There were some one-time savings.

MR. SHEPHERD: But that 5.5 is sort of ongoing savings, right? We're still experiencing that now; it's structural?

MS. GRAY: That would be correct.

MR. SHEPHERD: Okay. Thanks.

Then on page 7 of that, you have a reference to a shareholders' agreement that sets out a geographic footprint for growth and expansion. Is that filed on the record in this proceeding?

MR. MACDONALD: No, it has not been filed.

MR. SHEPHERD: Can we have that, please?
MR. MACDONALD: It was not our intention to file our shareholders' agreement.
MR. SHEPHERD: Okay. But I'm asking, so are you refusing?
MR. MACDONALD: Yes.
MR. SHEPHERD: Okay. The next is just two pages on from there in appendix C, the second page.
You talk about the merger milestones, and one of the things you had to do was, obviously, you had to reconcile the three collective agreements, right? And you did that, and did you end up -- the normal thing is in a merger you end up with the highest wage rates of whatever your collective agreements are. Is that what you ended up with?
MS. GRAY: No, that wasn't the case. We actually had collective bargaining, and so it was negotiated but not necessarily at the top rate.
MR. SHEPHERD: Some of them were below the top rate?
MS. GRAY: That's correct.
MR. SHEPHERD: Because nobody else has achieved this, so that's why I'm asking.
MS. GRAY: That's correct.
MR. SHEPHERD: Good. The next line down from that is:
"Integration of a management compensation structure and revised position profiles."
I don't want the details of that, because it discloses individual positions and everything, but presumably there was an approval document; when you finished that process,

you had to go to your HR committee of the board or somebody like that to get it approved?

Can we see that approval document? Whatever summarized and approved the integration of the two compensation structures?

Is there a document like that or...

MS. GRAY: Well, there certainly would have been a report. I'm trying to think if there is a reference document that we would have submitted, but --

MR. SHEPHERD: Maybe you could undertake to find what -- sorry.

MS. GRAY: So we were just referring to the question when we filed, so there was several pieces of information. We had a consultant come in, and actually there were several documents that we use with that, but they're very specific in terms of nature of individual compensation.

So the process was we went through, we evaluated positions based on the Hay method. They were noted in terms of their points, and you can see specifically individuals, where they ended up on that. So there would have been no formalized report to the HR committee in terms of the outcomes specifically.

MR. SHEPHERD: Somebody had to approve this, the new management compensation structure, right?

MS. GRAY: Yes. Yes, the actual management grid would have been approved, yes.

MR. SHEPHERD: So there is a document in which you say this is what we're proposing, here’s why we’re proposing it, please approve it; right?

It might be a PowerPoint, it might be a report, something like that. You must have a document like that, right?

MR. MACDONALD: It's less formal than we would have liked, I think partly because we were in the midst of this merger. So as Ms. Gray mentioned, we had Hay Group helping us. So we assigned points to different jobs and -- actually, I think we used names on some of those forms.

Out of that, we ended up with -- we didn’t end up with a study, like a document that wrapped it altogether. We did end up with a salary grid, salary ranges for the new company. But I don't think -- you can correct me, Ms. Gray, but I don't think there was ever a report at that stage either.

MR. SHEPHERD: Here's what I'm looking for. You had a management grid of some sort at Barrie, and you had a management grid, a salary grid of some sort at PowerStream. I know the PowerStream one was already on the Hay method, right, because I'm sure we've seen it previously.

MR. MACDONALD: I'm not sure what was filed, but the former PowerStream did use Hay Associates, yes.

MR. SHEPHERD: So then you merged the two, and what we’re trying to see is did you end up, as people often do, with the high end of the range. Or did you end up in the average, or at the low end, et cetera.

Is there something you can provide us that will help us to understand that, how that took place?

MR. MACDONALD: You can help me, Ms. Gray, but I --

MR. SHEPHERD: Let me rephrase it a different way, because maybe it doesn't come top of mind, what’s sitting back at the office.

Can you undertake to go look and see what you’ve got, and find something that will help me to understand this.

MR. MACDONALD: And the question is how were the two salary schedules married together?

MR. SHEPHERD: How the integration took place, and where you ended up and why.

MS. GRAY: Yes, we'll undertake to review what we have and provide it, if possible.

MR. SHEPHERD: Thank you.

MS. SEBALJ: That's JT1.20.

UNDERTAKING NO. JT1.20: TO EXPLAIN HOW THE BARRIE AND POWERSTREAM SALARY SCHEDULES WERE MERGED AND WHY

MR. SHEPHERD: The next is -- I'm now looking at a document which is under issue 1.1, appendix B, September -- this is the September 21st budget presentation. This is a presentation to the board of directors.

MR. MACDONALD: We have it, thank you.

MR. SHEPHERD: And I'm also looking at the next document, which is the December 14th presentation to the board of directors, same subject.

MR. MACDONALD: Yes.

MR. SHEPHERD: Okay. So there's three tables I'm looking at. The first is on page 3 of the first presentation and this, I guess, is the budget you had at the end of 2010; right?

MR. MACDONALD: That's correct. So we -- this is old information. so we're bridging it to the new information.

MR. SHEPHERD: Okay. And I see you have a pattern. You always -- when you present to your board, you present what they've seen before, what's happened, and your new proposal, right?

MR. MACDONALD: We try to, yes.

MR. SHEPHERD: So then on page 8, you have the new proposal, right, which is basically the same thing, but you've updated information?

MR. MACDONALD: And this is in September, so it's not final, but that's --

MR. SHEPHERD: I'm getting there.

MR. MACDONALD: You’re correct. I just want to make sure we're clear on the timing.

MR. SHEPHERD: Yes, okay. Just while you're on page 8, what does mock core mean?

MR. MACDONALD: I'm not seeing it -- oh.

MR. SHEPHERD: It’s obviously some internal term, but --

MR. MACDONALD: It's a term that many people use. But in this context I think it refers to modified IFRS for us. I think at that time we were crafting our modified IFRS statements.

MR. SHEPHERD: So mock means modified IFRS?

MR. MACDONALD: You can help me, but I believe that's --

MS. YOUNG: Yes, I believe that's the terminology used.

MR. MACDONALD: Mock -- I’m trying to find the rights words. It doesn't mean made-up statements, but it means we're creating them for the first time in modified IFRS.

MR. SHEPHERD: All right. And then the next one is in the December 14 -- and keep them all together, because I'm going to ask you to do something -- is on page, and unfortunately the pages are not numbered, but it's about page 8 or 9 of the December 14th presentation. It says "2012-13 preliminary budget, where we are now." Do you see that?

MR. MACDONALD: Yes.

MR. SHEPHERD: This is the same thing, it’s just now further updated, right? This is actually the one where you're saying this is what we're actually going to do, right?

MR. MACDONALD: This is what we would have been asking the Board to approve in December 2011.

MR. SHEPHERD: Perfect. So there are a bunch of changes in both the revenue, and the expense, and the income levels in between these three.

And I looked in the reports for explanations of those changes, and it looks like what they say in each case is we'll give you more detail verbally in the meeting.

So what I'm wondering is can you create some sort of table that compares the three of these, the three of these charts and -- sorry, the three of these, plus what you actually filed for this year in this application, so that we can see what -- the changes that occurred, because they're big changes. Some of them are big changes.

MS. YOUNG: Yes. I'll just mention a fundamental change is the budget, in the December rate of return, was at 8 percent -- sorry, in September, and of course it was updated to the return of 9.12.

So that made -- did have an effect. But we can reconcile the three and come up with, at a high level, the changes that have occurred.

MR. SHEPHERD: I'm not looking for the .2 here and the .3 here. But I'm looking for the 2 million here, 4 million there, that sort of thing, because some of them look quite substantial.

I'm just looking for what the changes were and why they occurred at these particular times; so these three plus the application.

MS. YOUNG: We can do that H.

MR. SHEPHERD: Is that the correct sequence; those are four items?

MR. MACDONALD: Yes.

MR. SHEPHERD: Okay, wonderful.

MS. SEBALJ: JT1.21.

UNDERTAKING NO. JT1.21: TO EXPLAIN CHANGES IN REVENUE, EXPENSE, AND INCOME LEVELS IN 2013 PRELIMINARY BUDGET.

MR. SHEPHERD: Thank you. Now I'm moving to issue 4.1. Those are actually on 4.1, most of them, but they just happened to appear somewhere else.

And my first questions relate to Staff Interrogatory No. 30, at pages 3 and 4 of issue 4.1.

MS. GRAY: Okay. We're there.

MR. SHEPHERD: So I guess my first question is you've got three new hires here for 2012, and I think I heard you say that one of them is already in the recruiting process.

MS. GRAY: Two.

MR. SHEPHERD: Two of them are in the recruiting process, and the other one you haven't got to yet -- or you haven't found the right person.

MS. GRAY: That's correct.

MR. SHEPHERD: On the next page, you have dollar figures. So those dollar figures match, one way or another -- and I'm not going to ask for individual people, believe me, but they should match the people on the page before, right?

MS. GRAY: That's correct, although this is not all compensation costs.

MR. SHEPHERD: Okay. So help me out. It says, "Technology strategy staff costs."

MS. GRAY: Right. So they're not really material costs, but there is a little bit in terms of training, that kind of thing.

MR. SHEPHERD: I wouldn't see them on the 2K, but for your purpose, you think of them as costs of new people?

MS. GRAY: That's correct.

MR. SHEPHERD: All right. I get that. So, for example, the first line on page 4 is "Project management office," and so that number is two project managers, right? You hired one in 2010 and one in 2011, and by 2012 their full cost is in?

MS. GRAY: That's correct.

MR. SHEPHERD: Then in enterprise risk and internal audit, you have -- only one person has been hired. That's one person? Manager enterprise risk is 317,000?

MS. GRAY: No. Again, in that particular area there is some consulting. Our strategy is we have an external partner, as well as internal resources. So there is also consulting dollars.

MR. SHEPHERD: So these aren't staff costs, then, on that line?

MS. GRAY: We viewed these as the role costs.

MR. SHEPHERD: Well, sorry. So does that mean that the senior internal audit person that you've listed as 2012, that you've got a consultant in place from 2010 doing that role? Do I understand that right?

MS. YOUNG: Yes. There was consulting costs in 2010 in the role of enterprise risk and internal audit, yes.

MR. SHEPHERD: No, I guess I'm understanding, but...

MS. YOUNG: I think what the costs represent is the cost of the initiatives, so they include both the payroll and consulting costs, training, things like that. So it was the cost of the initiative, not specifically the cost of the payroll.

MR. SHEPHERD: I see. Okay. And then the next one is legal, and that's a general counsel and an assistant, right?

MR. MACDONALD: That's correct.

MR. SHEPHERD: General counsel brought in in 2010, and assistant added in 2011?

MR. MACDONALD: That's correct.

MR. SHEPHERD: But presumably there are other costs in there, because otherwise the assistant -- the cost wouldn't go up from 2011 to 2012 by 113,000 unless that's a very, very good assistant.

MR. MACDONALD: No. We bring in other outside legal firms to help with certain projects. As mentioned, we combined payroll and those costs in this table.

MS. YOUNG: There was also costs of someone that was working in engineering for some legal type of -- doing legal-type work that was moved into the legal department, and that's one of the reasons why the difference between 2011 and 2012.

MR. SHEPHERD: And then finally in information services, in 2011 you added five people, two more in 2012, and five more are planned for next year; is that right? And that's what those figures represent?

MS. GRAY: Sorry, could you repeat that, Jay? So there was five --

MR. SHEPHERD: Five people in 2011, it seems to me, two people in 2012, and five people in 2013?

MS. GRAY: That's correct.

MR. SHEPHERD: That's what it looks like to me. And are there also consulting costs and things like that in there?

MS. GRAY: So within these ones, there are some specific costs associated with the IS component of the strategy. So there would be, as well, in there.

MR. SHEPHERD: Wonderful. Thank you.

Then my next question relates to CCC No. 29 on page 12 of 81. And you've listed compensation and additional staff as two of the components of the increase in OM&A costs per customer totalled to $20.5 million.

Is it right, though, that many of these other cost drivers are also staff-related costs? They are identified by function, but they're also -- many of them are people costs, right? Asset maintenance and customer services regulatory and IS strategy, these are all people costs mostly, right?

MS. YOUNG: Yes. We've tried to remove the actual payroll dollars and put them in the cost driver called "compensation and additional staff" and then more -- the projects and things like that are in the asset management, although there is some staffing in there too.

MR. SHEPHERD: Okay. Well, sorry, then I'm confused. I thought that compensation was sort of normal increases in salaries and progressions within grades and stuff like that, and was not related to any of these incremental functionalities that you've added below; is that right?

MS. YOUNG: Yes, so the compensation, just to clarify, we had the increase in staff pay, the merit-type increases and benefit increases within that cost driver "compensation" and additional staff, we have just additional staff related to customer growth, our apprenticeship programs and regulatory in the PMO. So those are additional staff, so you're right. There is labour, a labour component to the different other -- the other areas.

MR. SHEPHERD: So in asset maintenance, for example, that is not because you've gone out and got a consultant; this is because you have more people and they're costing money to do this stuff, right?

MS. YOUNG: Yes, other than specifically apprentices and things like that, but the regular staff, yes, the increases.

MR. SHEPHERD: Wonderful. And the other piece of clarification on that page is you've used the term "weighted average cost per customer," which is not a term that's normally used, but I take it what you mean is you added PowerStream and Barrie OM&A costs and you added PowerStream and Barrie number of customers and then you did the normal OM&A per customer calculation, right?

MS. YOUNG: Yes, that's right.

MR. SHEPHERD: Okay. Then my next question is on -- is on page 13, the next page, CCC Interrogatory No. 30. And your year-to-date figures for 2012 are both a fair bit lower than 50 percent of your forecast for 2012.

So my question is: As a result of the year-to-date actuals, have you revised your 2012 forecast or your 2013 forecasts for these areas?

MS. YOUNG: With our June year-to-date, what ends up happening is -- we're trying to get better, but at a quarterly level we do review our expenses, but there's a lot of accruals that we need to make and we have a tendency to make them at year-end. So I would say the cut-off as of June is not quite a true cut-off that it would be at a year-end where you'd have all your accruals.

So there are a lot of services that would have been performed but that haven't been invoiced to us and paid for. So there is some of that.

I'm not sure; Mike Matthews might be able to speak to the seasonality of some of our work.

MR. SHEPHERD: Before you talk to seasonality, can I ask: You don't do your periodic forecasting internally or your periodic reporting internally on an accrual basis? You do it on cash basis?

MS. YOUNG: We do do forecasting, yes. We do.

MR. SHEPHERD: No, but when you report actuals, like -- you had to report June 2012 actuals to somebody, right?

MS. YOUNG: Yes.

MR. SHEPHERD: Don't you report that on an accrual basis?

MS. YOUNG: Not fully. Not in the same process that we do at year-end. And we do tend, and I think a lot of utilities tend to have that jump happening at the year-end, as you accumulate and get a really good breakdown of costs.

So there is a bit of a lag that will happen, just from an accounting point of view, that you will find catches up in the year-end.

MR. SHEPHERD: Do we have these two numbers, O&M and administration expenses, for June 2011 actuals? As compared to 2011 budget? Do we have that?

MR. MACDONALD: I believe they were filed, but I wouldn't be able to say which interrogatory.

MR. SHEPHERD: What I'm looking for, though, is not, is not -- I know you've done a number of detailed comparisons. What I'm looking for is what percentage of your 2011 budget had you gotten to, at the end of June 2011 actual? Because then we can compare it to this, and we can see this -- the impact of accruals.

If it's not somewhere in the evidence, could you provide it?

MS. YOUNG: So can you just -- can you just repeat that again?

MR. SHEPHERD: Yes. What I'm looking for is a comparison of June 2011, actuals to budget, for these two categories, O&M and administration.

MR. MACDONALD: Sure.

MR. SHEPHERD: Thanks.

MS. SEBALJ: JT1.22.

UNDERTAKING NO. JT1.22: TO PROVIDE A COMPARISON OF JUNE 2011, ACTUALS TO BUDGET, FOR O&M AND ADMINISTRATION CATEGORIES

MR. SHEPHERD: I'm looking at now page 16 of this set of interrogatory responses, and this is CCC Interrogatory

No. 33. And you're asked about the initiative to grow through mergers and acquisitions, and your answer is that the only place where you identified this initiative is on your strategy map.

But you actually have a full corporate strategy, right, which we asked for and you refused? It's in there, too, right?

MS. YOUNG: So we actually do use our strategy map as our primary strategy tool. The information we were referring to is -- in 2010 we had a formal document that went to our board of directors, and then it went to our shareholders. And that's the document we were referring to. It's an older document, but we actually use the strategy map ongoing in communications with our board and with our employees, and that is what we use as our strategy map.

MR. SHEPHERD: No, I understand that. So we asked for the -- SEC No. 4,we asked for that 2010 full strategy. Now that strategy does refer to this initiative to grow through mergers and acquisition, doesn't it?

MR. MACDONALD: Yes.

MR. SHEPHERD: Okay. So now -- so this, when you say it's only in the strategy map, it's actually in the strategy map and the full strategy document, right?

MR. MACDONALD: Well --

MS. YOUNG: I believe the exact same language is in both documents. It doesn't go into it in any further depth.

MR. SHEPHERD: Okay. So I'm going to ask you then to provide that 2010 strategy.

MR. MACDONALD: We will decline, as we did in our response.

MR. SHEPHERD: Thank you. The next -- I'm actually running out of questions, you'll be happy to know. This isn't the last one, but I'm getting there.

I am on page 20 of 81, in schedule 4.1, and this is the information services department budget, CCC Interrogatory No. 36. And there is a line here that says computer.

And so I guess -- could you explain what that is? I mean, I know what a computer is. But presumably it's not a computer that's just getting bigger and eating up money. It's something more. Is this hardware?

MS. YOUNG: Yes. I think there is another IR that goes into a little bit more detail, and we have someone here, Bill, who can help us out on that area. But I know a major component is software maintenance.

But, Bill, do you want to talk about that?

MR. SCHMIDT: Yes, it comprises just what you've said, Mr. Shepherd. It's hardware, software, and software licensing for our application suite.

MR. SHEPHERD: So the hardware presumably is not -- the hardware is in rate base, right? You own your own computers?

MR. MACDONALD: That's correct.

MR. SHEPHERD: So this line -- this is on OM&A line, so that wouldn't be any computers themselves, physical computers?

MS. YOUNG: It would be the hardware maintenance.

MR. SCHMIDT: The maintenance of those computers.

MR. SHEPHERD: So your maintenance contracts, and stuff like that, and --

MR. SCHMIDT: Yes. Yes, for the equipment, that's correct.

MR. SHEPHERD: All right. And are your licences in there, too?

MR. SCHMIDT: Our software licences? Yes.

MR. SHEPHERD: Okay. What's the big jump from 2009 to 2010? It jumps by about -- I don't know, a third?

Actually, let me start by asking this question differently. The 2009 numbers here, do they include Barrie?

MS. YOUNG: Yes, I believe they do include Barrie.

MR. SHEPHERD: So my question is what's the big -- the $450,000 jump between 2009 and 2010?

MS. YOUNG: I know there was a software maintenance agreement increase. I would have to look into specifically what software maintenance that relates to.

MR. SHEPHERD: I'm wondering if you acquired some new application -- you know, an ERP or something like that -- that bumped up your costs, or whether this is just normal growth?

MS. YOUNG: I could make an estimate, but I think I would rather check it out and get back to you on that one.

MR. SHEPHERD: Wonderful.

MS. SEBALJ: It's JT1.23.

UNDERTAKING NO. JT1.23: TO EXPLAIN INCREASE IN COMPUTER MAINENTANCE COSTS BETWEEN 2009 AND 2010

MR. SHEPHERD: I'm only looking for that one line, the computer line. The rest of it, I think I understand.

My next question is on page 22 and this is CCC No. 38, and I -- I have only one question about this. Is there a MIFRS impact from 2011 to 2012, and do you have an idea of how big it is?

Fleet is one of those areas where sometimes there's a big impact. That's why I'm asking.

MS. YOUNG: I believe there would be an impact. I'm not exactly sure of the dollar amount.

MR. SHEPHERD: Okay. The reason I'm asking that is because normally the OM&A on fleet services actually goes up with MIFRS, and it appears to in fact not going up much; that's why I'm asking.

MR. MACDONALD: Understood.

MR. SHEPHERD: Can you help me? Can you find out what that is?

MR. MACDONALD: Sure.

MS. SEBALJ: So it's JT1.24. Jay, what you're looking for is the rationale for the lack of change between the 2012 and 2013 line?

MR. SHEPHERD: No, what I'm looking for is the MIFRS impact in 2012, and an understanding of why it is what it is, whatever it is. I think it's like $200,000, and that doesn't seem like much.

And then also on that page – previously, your practice was to allocate everything out, and now fleet services has become a cost centre, right? You've changed your allocation methodology?

MS. YOUNG: Yes, there are certain amounts that aren't applied.

MR. SHEPHERD: All right. And the reason for that is because the applied burden is applied to capital projects? You don't allocate it out to operating areas? Or do you allocate some of fleet to operating areas, too?

MS. YOUNG: Yes, the bottom amount, the 412, is the effect of -- the amount that we cannot allocate out because of modified IFRS.

MR. SHEPHERD: Okay. That solves JT1.24. So your practice was to allocate to capital everything?

MS. YOUNG: Capital and operating both got allocated vehicle.

MR. SHEPHERD: MIFRS doesn't limit your ability to allocate operating, does it?

MS. YOUNG: I'm just talking about our process. Our process is we allocate the fleet to both operating and capital projects.

MR. SHEPHERD: Okay. So that 2.443 --

MR. BARRETT: Jay, maybe I can clarify. So you're correct; it does get allocated out to OM&A. Whether it's maintenance of overhead lines or whatever it is, it does get allocated into those OM&A lines.

What gets left behind here is what IFRS doesn't allow us to capitalize that would have been capitalized in the past.

MR. SHEPHERD: I see. So the 2,443,677, for example, in 2012, that's allocated to both capital and operating but the 412 is stuff that used to be capital and now you can't?

MR. BARRETT: Correct. Yes.

MR. SHEPHERD: All right. Then we can get rid of JT1.24 answers.

Next question is on page 26, and your bad debt expense for -- this is CCC No. 40 -- your bad debt expense for 2012 is -- your year-to-date is higher than, I guess, you expected? Have you adjusted your 2013 forecast of bad debt?

MS. YOUNG: No, we haven't at this time.

MR. SHEPHERD: Next is the next page, 27, and this has -- this is property taxes. And it goes from 947,000 in 2009 to about a million eight in 2013.

And you pay taxes both on owned and leased land, right? Or real estate?

MS. YOUNG: Yes, that's true.

MR. SHEPHERD: And some of this increase is an increase because rates of property taxes have increased in these municipalities, and some of it is because you've added more real estate?

MS. YOUNG: Yes, that is true.

MR. SHEPHERD: Can you break down between the two how much of this increase is because rates have gone up and how much is because you have more real estate?

MS. YOUNG: Yes, we could do that.

UNDERTAKING NO. JT1.24: TO ADVISE HOW MUCH OF THE INCREASE IN MIFRS IS DUE TO RATE INCREASES VS ADDED REAL ESTATE

MR. SHEPHERD: Thank you. The new JT1.24, as it then was.

I'm looking at page 38. This is Energy Probe No. 28, and there's just one line in that that I want to ask about and that is you have the A&G expenses going up from June 2011 to June 2012 by $5 million. Am I right in assuming that most of that is going to be the effect of MIFRS? That is the inability to capitalize some of those A&G as burden?

MS. YOUNG: So the admin in general, you're saying, compared from 2011 to 2012?

MR. SHEPHERD: Yeah, this is June 2011 year-to-date, June 2012 year-to-date. And it's a big jump, but I'm guessing it's a MIFRS jump.

MS. YOUNG: Yes. There would be a large -- I haven't got the specific numbers, but there would be a large impact.

MR. SHEPHERD: Can you tell us how much the MIFRS impact is on that number? Is that something you can find out?

MS. YOUNG: Yeah, we can endeavour to allocate it to administrative and general expenses. That's in the total, right? The admin and general expenses, the change from 2011 to 2012?

MR. SHEPHERD: Just these actuals, because I don't want to make a fuss about a 51 percent increase if it's actually really only a 8 percent increase.

MS. YOUNG: The June 2011 year-to-date results aren't under -- we don't specifically have monthly information under IFRS. We didn't do it like that, but we could try to put something together to be more helpful.

MR. SHEPHERD: Just an estimate, bigger than a bread basket-type estimate.

MS. YOUNG: Yeah. We could do that.

MS. SEBALJ: JT1.25.

UNDERTAKING NO. JT1.25: TO PROVIDE JUNE 2011 IFRS ESTIMATE

MR. SHEPHERD: I'm looking at SEC No. 25, which is on page 47.

And one of the things we asked about is the increase in OM&A and how it was impacted by the savings coming out of the merger, and you said that the actuals for 2009 reflect the merger savings.

Am I right that the merger savings actually didn't really kick in until 2010, and in 2009 it was a small number?

We talked about this just a few minutes ago.

MS. GRAY: That's correct. There are more savings in

2010.

MR. SHEPHERD: So could you -- could you tell us or could you undertake to provide us with the actual extent to which the actuals for 2009 affect -- reflect merger savings as set out in this interrogatory, what the dollar figure is?

I'm happy with zero, if you prefer that, but I think there was actually some.

MS. GRAY: So if I understood you correctly, you were looking for the 2009 savings, merger savings?

MR. SHEPHERD: No, how much of the actuals that are referred to here are -- how much are they reduced by merger savings, the 2009 actuals?

MS. YOUNG: So just to clarify, some of the positions that we had when we had the merger savings didn't show up in the -- in our budget application -- or our application, due to the fact that they were not -- when we originally had our cost of service study in 2008 in Barrie, we didn't have all the other positions that we would need going forward if we didn't merge. So the 2008, for instance, Barrie numbers didn't have those merger savings in them.

So some of them, there won't be a one-to-one correlation between the merger savings and the amounts within the cost drivers.

MR. SHEPHERD: Okay. I have two questions on SEC Interrogatory No. 28, which is at pages 50 through 52 of this thing. I guess it's actually one question.

By the way, have you filed this KPMG report already?

The confidential report? Because if you haven't, you don't have to. I don't need to see it. Unless somebody else wants it.

MR. MACDONALD: I brought copies.

MR. SHEPHERD: I don't need to see that vendor recommendation. I assume that you selected the best candidate?

MR. MACDONALD: Yes.

MR. SHEPHERD: What I am going to ask about is you didn't do a full business case for the whole strategy, and I take it the reason is because, as you say on page 52, each of the individual projects within the strategy, if they're big enough, will have to have a business case; is that right?

MR. MACDONALD: That's our plan, yes.

MR. SHEPHERD: So my question, then, is have any -- do you have any business cases for any of those projects yet?

MR. MACDONALD: I don't think –- no, I don't think we do yet. It really hasn't borne fruit, the strategy, in terms of projects coming out.

MR. SHEPHERD: Because some of the projects in the strategy are ones you should have started or be starting shortly, right? Some of the big projects, in fact, are...

MR. MACDONALD: I would have to check them against the $500,000 threshold. Does one come to mind?

MR. SHEPHERD: Well, no, because I -- I don't know which ones you're going to think of as ones that you need a business case for or not. I mean, there's dozens of

projects within the strategy, right?
MR. MACDONALD: And some would be quite small.
MR. SHEPHERD: Yes, exactly. So as far as you know, there are no business cases for any of --
MR. MACDONALD: As far as I know.
MS. CUNNINGHAM: If I may help you out, Mr. Shepherd, to the best of my knowledge, there is none at this particular point in time. We are starting our process for 2014 business cases. So in 2014, there is a fairly major project with workforce management, and is a preliminary -- it’s just in preliminary stages, in terms of the starting draft of a business case at this point.
MR. SHEPHERD: But it doesn't affect the test year, the 2013?
MS. CUNNINGHAM: No. It doesn't, no.
MR. SHEPHERD: Thanks. And I just have two other questions. The first is on page 62; it is SEC No. 35. We asked for a business case, and I guess we misunderstood that the -- we thought the organizational effectiveness unit was the new unit, but it's actually the project management office that's the new unit, right?
MS. GRAY: That's correct.
MR. SHEPHERD: Was there a business case for that?
MS. GRAY: There was not a formal business case, no.
MR. SHEPHERD: Well, what was the document that you used to approve its establishment? I mean, you must have sat down and said how much is it going to cost, and what are we going to get out of it, at some point, right?

Management would have required that anyway. Is there a document that does that?

MS. GRAY: It was really in the form of a new headcount, so when we increased the headcount as opposed to whole project management office.

So we reviewed it at that time, and we presented it.

MR. SHEPHERD: I'm sorry, I -- you added more people, right?

MS. GRAY: Uh-huh.

MR. SHEPHERD: And you set up a new unit?

MS. GRAY: Correct. So at this time, with the project management office, it was predominantly labour within that. So it was at the initial time when we added the first PMO project manager. That's what I'm referring to.

MR. SHEPHERD: At some point you got approval for this thing called PMO, and you went to executive management team and you said please approve this, and you gave them some document to justify it. Do you have that document?

MS. GRAY: We created a charter. That's what we referred to.

MR. SHEPHERD: Yeah, I'm not thinking of the explanation I'm thinking of the justification, the financial justification for the activity. Is there something?

MS. GRAY: As I stated, it was within the initial headcount process. So predominantly there was no increase in cost with PMO, other than the first headcount, until there was a process that we – when we added that, that we talked about establishing a project management office, and so there was no formal business case.

MR. SHEPHERD: And then we also asked for the report of the external consultants relating to strategic management. And I'm not sure I understand your response. There is a -- they did do a report, right? You paid them $200,000.

MS. GRAY: No, that's not correct. So within that budget, there's several costs and the budget is $200,000, and so we had several different activities within that.

MR. SHEPHERD: So you may have had a bunch of little reports, but you didn't have any -- you didn't hire anybody to say help us with strategic management here, give us a report on this, or this, or this?

MS. GRAY: No, that's correct.

MR. SHEPHERD: Okay. And then my last question relates to page 73, VECC Interrogatory No. 34.

I think it's my last question. I may not be telling the truth – no, I'm actually not telling the truth. It's not my last question, sorry.

But on page 73, you talk about your costs associated with insurance, most of which comes from MEARIE. Have you gone out to the marketplace to see whether you can get all or any part of this insurance cheaper, given the increases in costs you've had since 2009? Have you looked competitively at what else is out there?

MS. YOUNG: I joined the PowerStream group a little bit later. But I know in the previous Barrie Hydro we did look at the cost of MEARIE, and we still found that it was worth it to stick with MEARIE.

Now, I'm not sure if we have done one recently. We do analyze and look at our insurance yearly. But comparing outside, I'm not sure the length of which we do that every year. So I can look into that.

MR. SHEPHERD: You've never done an RFP or anything like that, to get the insurance companies to tell you what they'll do for you?

MS. YOUNG: We'll have to check. I don't think a formal RFP was issued for this area, but I'll have to check for you.

MR. SHEPHERD: Okay. Do you want to undertake that?

MS. YOUNG: Yes, I'll take that as an undertaking.

MS. SEBALJ: It's JT1.26.

UNDERTAKING NO. JT1.26: TO CONFIRM IF A FORMAL RFP WAS ISSUED FOR INSURANCE COSTS AND COVERAGE

MR. SHEPHERD: Then I'm looking at -- I'm under 4.4 now, page 3 of 25, which is Staff No. 35. And this is a question about how the regulated part of PowerStream relates to the unregulated solar business. Do you see that?

MR. MACDONALD: On Board Staff 35?

MR. SHEPHERD: Board Staff 35, page 3 of 25, in schedule 4.4.

MR. MACDONALD: Yes.

MR. SHEPHERD: So what you say is that because PowerStream solar is within PowerStream, it's not an affiliate or separate company, it's not subject to ARC. And I assume that means that the pricing between the two is different, right, than it would be if it was an affiliate?

MR. MACDONALD: That's correct.

MR. SHEPHERD: Can you quantify the impact of that difference?

MR. MACDONALD: So the difference would be the mark-up, which we --

MR. SHEPHERD: Is it only the mark-up?

MR. MACDONALD: I don’t think we -- no, we wouldn't do anything differently otherwise. But I would -- I couldn't quantify that sitting here, but I could --

MR. SHEPHERD: Can you undertake to quantify how much would the charge to PowerStream solar be different, if it was an affiliate rather than a business unit?

MR. MACDONALD: Understood, yes.

MS. SEBALJ: JT1.27.

UNDERTAKING NO. JT1.27: TO QUANTIFY HOW MUCH THE CHARGE TO POWERSTREAM SOLAR WOULD BE DIFFERENT IF IT WAS AN AFFILIATE RATHER THAN A BUSINESS UNIT

MR. SHEPHERD: And my last question -- my real last question, I promise I promise I promise -- is in response to SEC Interrogatory No. 41 under schedule 4.4.

We're asking about the reduction in water/sewer charges.

MR. MACDONALD: What page, sorry?

MR. SHEPHERD: Sorry, this is page 24 of 25.

MR. MACDONALD: Thank you.

MR. SHEPHERD: It’s the reduction in water and sewer charges from 2011 to 2013. We thought it was because you were providing less services to the town of Markham. But you've actually changed how you cost those services, right?

MR. MACDONALD: That's correct.

MR. SHEPHERD: Do you -- have you included a description of that change in the evidence somewhere?

MR. MACDONALD: No.

MR. SHEPHERD: Can you provide it? Maybe you can just give it to us verbally, if it's simple, but --

MR. MACDONALD: It wouldn't be a simple answer, because we have a model that underpins how we do the calculations.

MR. SHEPHERD: And you've changed how the model operates, right?

MR. MACDONALD: Some of the assumptions, or some of the inputs, yes. This is a new set of – a new start for the agreement -- like it expired and a new agreement was formed, so --

MR. SHEPHERD: All right. Can you undertake to provide an explanation of the difference in the costing method, and what it means -- how it was done before, how it's done after, and why you’ve made the changes?

MR. MACDONALD: This is again sort of big picture, like the key changes?

MR. SHEPHERD: No, I think we actually need to see -- I mean, this is in an SLA somewhere, right?

MR. MACDONALD: Not the model. The number is in.

MR. SHEPHERD: The number is in, so underlying that number is a model. So if you could show us the calculation before and after, then we can see the differences.

MR. MACDONALD: We can do that.

MR. SHEPHERD: Thanks.

MS. SEBALJ: That's JT1.28.

UNDERTAKING NO. JT1.28: TO PROVIDE AN EXPLANATION OF THE DIFFERENCE IN THE COSTING METHOD, AND WHAT IT MEANS – HOW IT WAS DONE BEFORE, HOW IT'S DONE AFTER, AND WHY CHANGES WERE MADE

MR. SHEPHERD: And I have no more questions, thank you. And thank you for your patience.

MS. GIRVAN: Do you want me to go ahead, or do you want a break? It’s up to the witnesses.

MS. SEBALJ: I guess it depends how long you think you’re going to be.

MS. GIRVAN: About 15 minutes.

MS. SEBALJ: I think you're the last of the crew, so...

The question is for the court reporter and the witnesses: Are you okay to keep going and be done at the end, or did you want to take a break?

MR. MACDONALD: Is this the last...

MS. SEBALJ: I believe it's the last of the questions.

MR. MACDONALD: We're good to go.

MS. SEBALJ: Thanks.

QUESTIONS BY MS. GIRVAN:

MS. GIRVAN: Good afternoon. I'm Julie Girvan with the Consumers Council of Canada. I have a few general questions that I'm hoping you can help me with. I apologize for not being here this morning; I had another obligation.

So the first question that I'm going to refer to is CCC No. 3, and it's under 1.1. It's about the arrangement with Collingwood.

And I know you said you haven't really quantified any impact, but could you just tell me how this arrangement could potentially impact the 2013 revenue requirement?

MR. MACDONALD: Ms. Girvan, I can't add much more than we said in the IR response. We just closed this transaction at the end of July, and we need to sit down with Collus PowerStream, as it's called now, and sort out a service-level agreement that would include services we provide to them, and vice versa, but we haven't even started that process yet.

MS. GIRVAN: So you have no sense of whether there will be savings and what those savings might be for PowerStream?

I would assume that that's why you did it in the first place.

MR. MACDONALD: Well, I would expect when this SLA is done, Collus PowerStream will pay PowerStream for some services, but I have no idea of the quantum now.

MS. GIRVAN: You don't know ballpark?

MR. MACDONALD: No.

MS. GIRVAN: Nothing? Okay.

This is going now to those appendix B and appendix C that Jay was referring to earlier, where we had the charts about Board-approved 2011 budget and financial outlook. And if I'm looking at what Jay was looking at, which is slide 3 of appendix B and slide 8...

MR. MACDONALD: Yes.

MS. GIRVAN: Let's start with slide 3. I'm trying to get a sense of what this is really telling us. And specifically, I'm curious about the lines "deemed ROE approved rate base" and "deemed ROE real-time rate base" and what those numbers actually mean.

MR. MACDONALD: So for this -- we spend a lot of time with this model, actually. So we have two views of outlook -- sorry, of the rate base.

So the approved rate base in this case would be a combination of the Barrie 2008 and PowerStream 2009. And what we call real-time, another PowerStream term, that takes rate base additions in each year and adds them, but that's imaginary because that only happens in our rebasing year. It just gives us a sense of the return in that year if those additions were in rate base. It's just two different views of the return. But...

MS. GIRVAN: So you're almost pretending that you were in cost of service, to do that calculation?

MR. MACDONALD: Exactly. Because that's one of the purposes of this model, is to see how the timing of rebasing impacts the business.

MS. GIRVAN: Okay. So if you turn to the same schedule on page 8 that says "Preliminary 2012 budget and five-year outlook, core business," can you explain to me what this budget gap number is?

MR. MACDONALD: Yes. So this -- I think it's probably most helpful to look at the outlying years, 2014, '15 and '16. What it's getting to, again -- and it's just a model to show us. It's the shortfall we would have during IRM period, is to do the things that we want to do, including OM&A expenditures to pay our staff and other things, as well as pay the depreciation and return on capital expenditures.

So it's a way to show us some of the challenges during an IRM period.

MS. GIRVAN: So what's the relationship, then, between budget gap and the ROE numbers?

MR. MACDONALD: We've locked in the ROE to get the gap, because another assumption is we want to provide our shareholders with the allowed return. And at that time, I believe the Board-published rate was 9.4, or plus or minus a point.

So it's pinning -- it's pinning the return to our shareholder at the allowed rate, making some assumptions about OM&A, modest growth over time, and also plugging in our capital plan, which shows in depreciation and return, as well.

MS. GIRVAN: Okay. And what does the number at the bottom, the note at the bottom, mean? "To achieve 8 percent ROE on real-time rate base, the budget gap in 2012 would be

4.9 million."

MR. MACDONALD: So that would be -- can you help me there?

MS. YOUNG: I think what they're trying to clarify here is that if you look at the top number of 8 percent, there would be a budget gap of $1.8 million to get to that 8 percent. I believe the star on the 8 percent there is saying that you'd actually need 4.9 to get to the 8 percent on the deemed ROE.

MR. MACDONALD: Hypothetical rate base.

MS. YOUNG: Right.

MS. GIRVAN: Okay. I'll have to look at this more carefully, but I guess it's an internal document that you guys know inside out. It's hard to see what it's really illustrating for us, but anyway, thank you for that.

The other one is a general question, is CCC No. 4 under schedule 1.1. And this is about mergers and acquisition costs, and what the answer said is that costs associated with merger and acquisitions are not tracked. Can you tell me why you don't track them?

And that's the first part of my question.

MS. YOUNG: So we're specifically talking about the core business activities, and within that, within that area, we have the areas of mergers and acquisitions, suite metering and other activities permitted by the Green Energy Act. It does not include specifically the solar.

So we look at these activities as part of our rate-regulated entity, and don't track them separately in a different account to keep track of those amounts.

MS. GIRVAN: Technically speaking, if you were pursuing some sort of merger or acquisition, these kind of costs would be hived out and sort of deemed transition costs?

MS. YOUNG: I think probably at a point in time they might. There was -- has been -- there hasn't been significant merger and acquisition activity at this point right now. I think there is a transition point where you start tracking those, and I think that's what you're referring to.

MS. GIRVAN: So you don't have anything planned for 2013 about pursuing mergers or acquisitions?

MR. MACDONALD: Nothing specific.

MS. YOUNG: Nothing specific.

MS. GIRVAN: Okay. Thank you.

Now, if I turn to -- back to issue 4.1 which is operating costs, a few of these have been covered off by others. If you go to CCC No. 36 --

MR. MACDONALD: Sorry?

MS. GIRVAN: 36.

MR. MACDONALD: 36? Thank you.

MS. GIRVAN: And the first question is about regulatory costs, and there's two pages to this. If you -- sorry, yeah, if you go to page 19 -- is that the right one, sorry? Where it says "budget rates and regulatory affairs department"? Actually, it's CCC 35. I apologize.

Do you have that?

MS. YOUNG: Yes I do.

MS. GIRVAN: Can you just explain to me out of the sort of total regulatory costs, which numbers here are embedded in rates for 2013? Is it the grand total?

MS. YOUNG: I believe it is the grand total of 2.794 million.

MS. GIRVAN: All right. Thank you.

CCC No. 36, and Mr. Shepherd touched on this a bit, but I'm just wondering why the labour component of information services has been increasing so significantly really in 2012 and 2013.

MS. YOUNG: It specifically goes back to our IT strategy, and I think we've outlined the addition in personnel that's required and the specific consulting costs that have been required to have that initiative go forward.

MS. GIRVAN: But the first line is "Labour" and that's not consulting costs, right?

MS. YOUNG: Yes, that's right. So there is specifically staff identified as enabling that IT strategy that were required.

MS. GIRVAN: Did you do any assessment as to whether or not it made more sense to hire contractors or hire full-time employees for those responsibilities?

MR. MACDONALD: Yes. We hired KPMG to do that study with us, help us. So that was part of the discussion, so I think the result was a mixture.

So we tend to put our best staff on projects and then we may backfill positions, so there is a combination of hires and consultants and contract labour.

MS. GIRVAN: Okay. Thank you.

CCC No. 37, and this is in the -- looks at the expenses in the legal department.

Again, I'm just wondering why the legal budget has increased so significantly since 2010.

MS. YOUNG: So there was some addition to staff in the legal department. And there was also an allocation made between a different department. I believe in engineering, there was someone brought forward and is now working in the legal department on some issues in relation to legal information, and that's one of the reasons why that has increased also.

MS. GIRVAN: So would there be a corresponding reduction in engineering to reflect that?

MS. YOUNG: Yeah. That was reduced out of the engineering, yeah, that one individual.

MS. GIRVAN: Can you explain to me what -- just curious -- what other expenses are in the context of legal?

It's not significant. I was just curious really as to what that referred to.

MS. YOUNG: On first glance, I think it might be training. It's not specifically identified in that area.

MS. GIRVAN: Okay. Thank you.

Now, turning to CCC No. 38, and I'm curious, with respect to the fleet services budget, what's contained in "Other" and why that's gone from, basically, $19,000 in 2009 to $200,000 in 2013.

Is this just the change related to the MIFRS? Just an accounting change related to that?

MS. YOUNG: No. I believe that in the "Other" column -- you're talking about the "Other" column?

MS. GIRVAN: Yeah.

MS. YOUNG: Going from 17? I believe there is a vehicle lease -- there's vehicle leases in that amount. I'd have to get you details on that, but that's what it relates to.

MS. GIRVAN: Could you undertake to find out what causes the increase?

MS. YOUNG: Yes.

MS. GIRVAN: Thank you.

MS. YOUNG: Specifically the vehicle leases that --

MS. GIRVAN: Well, just what's in the "Other" category and what's the cause for the increase over 2011, really.

MS. SEBALJ: JT1.29.

UNDERTAKING NO. JT1.29: TO PROVIDE BREAKDOWN IN "OTHER" CATEGORY OF FLEET SERVICES BUDGET, AND REASONS FOR INCREASE FROM 2009 TO 2013.

MS. GIRVAN: And then CCC No. 39, and this is regarding corporate communications. And I just wondered -- if you look on page 2 of that interrogatory, I'm just wondering why we've seen, again, a significant increase in this budget area relative to 2009 and '10.

MS. YOUNG: Just to clarify, you're talking about the general overall increase?

MS. GIRVAN: Yes.

MS. YOUNG: I think there are several initiatives in this area. I might be able to get help from my colleagues on some of them.

I know smart metering communication is in some of those. We're having communication to our staff on our Journey of Excellence, which is a program we haven't talked about here yet, but specifically about process improvements and many other initiatives in the area.

So they have also developed a corporate communications survey and -- sorry, not survey, but customer survey.

And then there's other areas that have been developed, such as the -- internet and communication of -- we have someone who helps with the internet, and how that...

Social media; that's the word I'm looking for.

So there's several initiatives in this area.

MS. GIRVAN: Okay. Can you tell me in these line items where I would find expenses related to meters?

MS. YOUNG: I think it's "Advertising." That would be in that line of "Advertising."

MS. GIRVAN: So I see that the increase isn't all that significant in that particular line item. I see it more in "Labour."

MS. YOUNG: Yes, and I believe Barb can speak to some of that "Labour" but I believe there was specifically, as I mentioned, some positions that were added in "Labour" for corporate communications.

MS. GIRVAN: Maybe what you could do is, in the context of the labour, you could sort of set out the increased FTEs?

MS. GRAY: Sure. From 2009, there was an increase of headcount by three, three staff members. So one was specifically around the social media, the presence there.

Let me think the other one. The other one is a new junior communication person, so she came on in this year.

Yes, and the third one came over from -- it was a manager position, so it's more related to customer communication. So it was a manager role.

MS. GIRVAN: Okay. Now, I've got a few questions on rate base. Is there somebody that can help me with rate base, since I wasn't here this morning? Could we try?

MR. MACDONALD: Mr. Barrett, I think, could probably -- right there, can probably help.

MS. GIRVAN: Oh, okay. There's a particular schedule that I was looking at, and it's kind of hard to find, but we were looking before at Jay -- schedule 1.1, 1 the very beginning section, and there is an appendix F. And the document is entitled: "2012-2013 preliminary budget guidelines presentation."

Do you have that? So one of the difficulties is that the slides aren't numbered, so about the 10th one from the back, and I didn't bring my text with me, but there's a slide that's called: "Deferred projects".

Did you find it?

MR. MACDONALD: So the first one, first heading is "Sustainment projects deferred"?

MS. GIRVAN: Yeah. There's two pages. There's two slides, two pages.

MR. MACDONALD: I'll need Ms. Cunningham to speak to this.

MS. CUNNINGHAM: I have the page thank you.

MS. GIRVAN: See, I'm just doing this to prove that I actually went through the materials.

[Laughter]

MS. GIRVAN: Anyway, what I would like to just -- get an understanding of what the significance of this slide is, this information, within PowerStream, and why these particular projects have been deferred.

MS. CUNNINGHAM: If I may explain our process a little bit, the business units do their five-year plans. They then, three or four months later, put their project list forward, which could be slightly different. And then we go through an optimization process. And when we go through our optimization process, we look at both the value of the projects and we look at the risk of the projects. And we also take into consideration, when we're doing that optimization, the total portfolio amount that we can prudently spend, and we determine that in concert with our finance group.

And we look at a couple different scenarios when we go through that process, so we might look at a scenario where spending is X or a different scenario where spending is Y. And we compare those scenarios and look at what's deferred with one scenario versus a different scenario.

And so what we were trying to portray in this particular slide is that we did not approve the entire ask from the business units.

MS. GIRVAN: Okay?

MS. CUNNINGHAM: And in fact, we pushed back the asks from the business units, and we're trying to say: Here is the stuff that's going to get deferred.

And we then in turn had some conversation about what the risk of deferring those projects were, and although we always like to spend the money, we felt that we could deal with the risk of deferring those projects that were on the list.

MS. GIRVAN: So all of those projects were deferred?

MS. CUNNINGHAM: At that particular point in time.

MS. GIRVAN: Were they rolled into 2013?

MS. CUNNINGHAM: I think it depends. We put the information here, so if it says "2012 deferred to 2013" that's what happened.

If it says "2012 project deferred to?" it's --

MS. GIRVAN: It's not in the 2013?

MS. CUNNINGHAM: That's correct.

MS. GIRVAN: That's helpful.

Now, if you could turn to -- it's issue 2.3 and it's CCC No. 8.

MR. MACDONALD: Ms. Girvan, do you have a page number?

MS. GIRVAN: You know, I don't.

MR. MACDONALD: What's the IR again?

MS. GIRVAN: Oh, wait. I do. Hang on. It's page 12 of 77.

MR. MACDONALD: Thank you.
MS. GIRVAN: I've got so many numbers on these things. Do you have that?
MR. MACDONALD: Yes.
MS. GIRVAN: Okay. So the question was really asking how your capital plan would be impacted if the Board did not approve your proposal for the full depreciation in 2013.
And at the bottom, it says:
"PowerStream indicated that with less funding, it may need to defer capital work."
And I guess what I would like to know is: If this happened, if this was the case, can you indicate what projects might be deferred in the event that the Board rejects your proposal?
MR. MACDONALD: We did touch on this one this morning.
MS. GIRVAN: Oh, did you?
MR. MACDONALD: I believe our thinking is that we would not defer anything from the test year.
MS. GIRVAN: Okay.
MR. MACDONALD: But we might need to defer things from the out years beyond that. I think that's what we said.
MS. GIRVAN: Okay. So somebody was --
MS. CUNNINGHAM: That's correct.
MS. GIRVAN: -- referring to this already. Okay. I'm almost done.
CCC No. 21 in the same issue, so schedule 2.3. Let me just find it. There. Thank you. Yes, page 27.

MR. MACDONALD: Yes.

MS. GIRVAN: Again, this may have been covered this morning, and I apologize.

I'm just trying to get a sense of this cable replacement program, and what I sort of see as a lumpy investment in the sense that it's really been ramped up in 2011.

And I guess my first question is: Will the project be completed in 2013?

MS. CUNNINGHAM: If I may answer, it is our opinion that we will complete the funds that we've requested for in 2013. We have started pre-planning now, in terms of securing required resources and doing some of the project preplanning to ensure we're successful.

MS. GIRVAN: That particular project will be completed by the end of 2013, or is it ongoing?

MS. CUNNINGHAM: Underground cable replacement, we foresee it to be an ongoing program for the next number of years.

MS. GIRVAN: Okay. And I guess what I would be interested in is, if that's the case, do you have budgets prepared for 2000 -- I may have missed it. '14 and '15 with respect to this program?

MS. CUNNINGHAM: That's correct. We do. What we've done is we've taken a look at the future needs and trying to level across approximately the next 20 years.

Mr. Wojcinski, can you...

MR. WOJCINSKI: Sure. What we did is we looked at over a 20-year program of cable spending, and basically flatlined that cost across 20 years. So the spending in 2013, we would spend the same amount in 2014 and '15, basically looking at replacing same amount of cable every year over 20-year period. And --

MS. GIRVAN: So this is -- 2013 is 14.9 million, so you're saying that over the next 20 years, each year you're going to be spending 14.9 million?

MS. CUNNINGHAM: That's our plan. That's correct.

MS. GIRVAN: Okay. Thank you.

One more question, if you go to the same exhibit, 2.3, CCC 22, and that's at page 30.

MR. MACDONALD: Got it.

MS. GIRVAN: Okay. So if I go to page 2 -- and this is regarding the pole replacement program -- and it says -- and the switch gear replacement program. It says:

> "The pace of the programs are determined based on addressing safety and reliability-related replacement needs in a timely manner, based in part by results from PowerStream's asset condition assessment program, and presenting a smooth, multi-year budget spend program for financial and ratemaking purposes."

And I'm just curious, if that's your intent, why the program has accelerated, particularly the pole replacement program over 2012 and '13, when one of your aims is to present a smooth budget for financial and ratemaking purposes?

MS. CUNNINGHAM: So we recognize that there is an increase for the test year, 2013, but we did some work back in 2000 with our asset condition studies, which indicated we needed to ramp up our programs. So we did start to ramp up our programs, but the study also said that we needed additional information. So we spent the last couple of years gathering that information to make sure we fully understand what we needed to ramp up to and we finished that analysis late 2011 and we put it in for 2013, to give us some time to ensure we had the resources in place, but like the underground replacement, the intention is to spend this level for the foreseeable future.

MS. GIRVAN: Okay, and that's both with respect to the pole replacement and the switch gear replacement?

MS. CUNNINGHAM: That's correct.

MS. GIRVAN: So these 2013 test year amounts are what you expect to be an annual cost for each of the next 20 years?

MS. CUNNINGHAM: I'm not sure 20 years, but certainly for the next number of years.

MR. WOJCINSKI: For the pole replacement program, it would be a six-year program that -- you're looking at addressing the poles classed as ––

MS. SEBALJ: Is your mic on?

MR. WOJCINSKI: Sorry about that.

For the pole replacement program, it would be a six-year program, looking at addressing poles that, through our asset condition assessment program and safety issues, are in a poor or very poor class. There's quite a number of poles.

And what -- we looked at it and said: It is really not feasible to do all of them all in one year, even though they should be done as soon as possible. And we felt smoothing it over a six-year period was a prudent and reasonable way of dealing with those poles in that condition.

MS. GIRVAN: Thank you. Those are my questions.

MS. SEBALJ: All right. Does anybody else in the room have anything?

Well, thank you very much, panel, and thank you to everyone. Unless there is any follow-up or anything that anyone wants to add, I think we're adjourned for this Technical Conference. And undertakings are required to be filed by October 1st.

MR. MACDONALD: That's correct. And we have nothing else. Thank you.

MS. SEBALJ: All right. Thank you everyone. Thank you.

--- Whereupon the conference concluded at 2:53 p.m.