Ontario

ONTARIO ENERGY BOARD

FILE NO.: **EB-2012-0136**

VOLUME: **Technical Conference**

DATE: **November 22, 2012**

EB-2012-0136

THE ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an application filed by Hydro One Networks Inc. for an order or orders approving just and reasonable rates and other charges for electricity distribution effective January 1, 2013.

Hearing held at 2300 Yonge Street,
25th Floor, Toronto, Ontario,
on Thursday, November 22nd , 2012,
commencing at 9:31 a.m.

TECHNICAL CONFERENCE

A P P E A R A N C E S

MICHAEL MILLAR	Board Counsel
HAROLD THIESSEN EDIK ZWARENSTEIN FIONA O'CONNELL NEIL MATHER	Board Staff
DON ROGERS IAN MALPASS NAI YU ZHANG	Hydro One Networks Inc.
DAVID CROCKER SHELLEY GRICE	Association of Major Power Consumers in Ontario (AMPCO)
ROBERT NIXON	Balsam Lake Coalition
KIM DULLET	Canadian Manufacturers & Exporters (CME) (via teleconference)
JULIE GIRVAN	Consumers Council of Canada (CCC)
ROGER HIGGIN	Energy Probe Research Foundation
TED COWAN	Ontario Federation of Agriculture
RICHARD STEPHENSON	Power Workers' Union (PWU)
MARK RUBENSTEIN	School Energy Coalition (SEC)
BILL HARPER	Vulnerable Energy Consumers' Coalition (VECC)

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NO EXHIBITS WERE FILED IN THIS PROCEEDING

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

Thursday, November 22, 2012

--- On commencing at 9:31 a.m.

MR. THIESSEN: Welcome to the Hydro One Distribution 2013 rates case EB-2012-0136 technical conference. It’s a conference that will be transcribed by the court reporter.

And my name is Harold Thiessen. I'm the case manager on behalf of Board Staff for this case. And with me is Michael Millar, our legal counsel, Edik Zwarenstein, Fiona O'Connell, and in the back there is Neil Mather observing.

As per the Board's Procedural Order No. 3, it is stated that:

> "The purpose of the technical conference is to increase the efficiency of the oral proceeding by providing parties with an opportunity to clarify the evidence, including an opportunity to address any outstanding questions with regard to the interrogatory responses."

And that's all I have to say in terms of an introduction. Mike, do you have any comments?

MR. MILLAR: Given the number of people in the room, we might take formal appearances, and then perhaps hand it over to Hydro One.

MR. ROGERS: Good morning, everyone. My name is Don Rogers and I am counsel to Hydro One in this case. With me is Mr. Ian Malpass, who is director of regulatory with Hydro One, and his colleague Ms. Nai Yu Zhang.

I'll have comments to make, but perhaps we can take appearances first before we...

MR. CROCKER: I'm David Crocker with AMPCO, and Shelley Grice is with me.

MR. HARPER: My name is Bill Harper. I'm the consultant for the Vulnerable Energy Consumers Coalition.

MR. RUBENSTEIN: Mark Rubenstein, counsel to the School Energy Coalition.

DR. HIGGIN: Roger Higgin, consultant to Energy Probe.

MS. GIRVAN: Julie Girvan, consultant to Consumers Council of Canada.

MR. NIXON: I'm Bob Nixon, representing the Balsam Lake Coalition.

MR. STEVENS: I'm Richard Stevens. I'm counsel for the Power Workers Union.

MR. THIESSEN: I should mention also that Kim Dullet from Ottawa, representing CME, will be calling in via conference call, but I don't think has been connected yet.

I'll leave it over to Don.

MR. ROGERS: All right. Thank you very much.

I thought what I would do is -- well, first of all, let me say that a number of questions, as you know, were answered in writing yesterday, late yesterday afternoon. And I understand that some people maybe didn't receive them by e-mail. So we have hard copies here in the hearing room for anybody that wasn't able to get access to those written answers.

Let me explain how we propose to proceed this morning. We thought the best way to deal with this was have two groups of company officials to answer questions in some organized fashion.

And what I'm proposing here is that we have our first group, whom you can see before you, to answer questions about IRM, ICM, escalated issue projects, and CIS matters generally.

Then we'll have a second group, a second panel composed of two gentlemen who can answer questions about the density study and the rate proposals.

MS. GIRVAN: Don, can you just repeat the first one? Sorry.

MR. ROGERS: I'll introduce each witness, and then you'll know them, and I'll tell you what questions they'll respond to. How about that? So the people before you now, I think you'll know most of these people.

HYDRO ONE NETWORKS INC. – PANEL 1

Myles D'Arcey

Brad Bowness

Susan Frank

Rick Steven

Starting from my far right to the far end of the panel, we have Mr. Myles D'Arcey. Mr. D'Arcey is senior vice president, customer operations, and he can answer questions about CIS operations issues.

Next to him we have Brad Bowness. He is the director of IT service delivery, and he will answer questions about CIS technical issues.

So the CIS questions should be addressed to this group of people.

In the middle, you will recognize Ms. Susan Frank. Ms. Frank is vice president and chief regulatory officer, and she will be generally dealing with questions dealing with IRM and ICM methodology, including the high-level approach to typical capital.

Next to Ms. Frank is Mr. Rick Steven. Mr. Steven is vice president, asset management for the company, and he can deal with questions relating to escalated issue projects such as poles and stations, and typical capital projects and the smart grid.

So they will be dealing with those topics generally.

Now, one thing I would say, that Mr. Bowness has to leave a little early today for commitments he has. He will be dealing with CIS issues. I would be grateful if we could start off with any questions dealing with CIS so that he might be released fairly early today to attend to his other affairs.

Otherwise, we are open to questions. And welcome a dialogue about the technical issues in this case.

MR. MILLAR: I think following Don's suggestion, maybe what we'll do is -- normally we go party by party by party. It seems there is a conflict for later in the day. I haven't canvassed the room, but perhaps what we can do is have everyone who has CIS questions ask the CIS questions off the top. And then we'll revert to our normal practice of going through it party by party.

Can anyone advise if they do have CIS questions?

Roger did. Would you mind starting?

MR. CROCKER: Can I make a suggestion, Michael? Not everybody, as was indicated, got copies of the written responses. We did, and I think all of AMPCO's questions were answered. I'm not sure we have anything more. I'm going to confirm that, and then if we don't I'm not going to stay.

I wonder whether it's worth pausing for a little bit so that those who didn't get those responses last night can look at them and see what questions were answered and how thoroughly they were answered and whether they need to go over them again, what's left over. I think it will shorten things.

I understand the gentleman's time constraints. Just a suggestion.

MR. MILLAR: I think we'll be willing to pause if that's necessary. If we get to a spot where someone says: I need a bit of time to find out if we these questions have been answered, et cetera. We're perfectly prepared to do that, I think.

Roger, I take it that's not the case for you? You are prepared to proceed on at least the CIS questions? Why don't we get through you and then we'll see who's left?

MR. RUBENSTEIN: Look, I mean, SEC, neither myself or Jay were included on the distribution list for the material, so I'm looking only through it in the last 40 minutes, thanks to Bill, who sent it to me.

And I understand you want to do CIS first, so I'm reviewing the CIS material. The problem is I can't pay attention to the answers to Roger's questions if I'm frantically trying to make sure all our questions are answered.

MR. MILLAR: If we need to break we'll take one.

MR. RUBENSTEIN: So can we take a break?

MR. MILLAR: I was going to suggest we start with Roger and then take a break if we need one. If he has answered all your questions, we won't need to take a break.

MR. RUBENSTEIN: I know they haven't. I need to make sure they actually answered my questions.

MR. MILLAR: How long do you want?

MR. RUBENSTEIN: I don't know. If we can take 15 minutes?

MR. MILLAR: We can certainly take 15 minutes. Why don't we come back for 10:00 o'clock, then? That give us about 20 minutes. If more time is necessary we can do it, but let's break till 10:00 o'clock.

--- Recess taken at 9:40 a.m.

--- On resuming at 10:02 a.m.

MR. MILLAR: Okay thank you everybody. It's just after ten, so I think -- I have canvassed the room and it looks like we're ready to proceed.

Roger, do you want to start us off with your CIS questions?

QUESTIONS BY DR. HIGGIN:

DR. HIGGIN: Good morning, panel. I'm going to start with Energy Probe TCQ No. 6 as a point of departure.

Just by way of background, the genesis of this is that there has been request in the past for a template, I'll call it, which sets out the multi-year CIS costs and benefits.

That was provided in the first reference here in our IRs. So we're now looking at that template, so that's the genesis of everything. And trying to understand the template, and how we could look at how that would be reduced to a cost per customer, and also on a levelized basis. That's what this IR’s response -- question was about.

So first of all, I would like to just understand the response; I have a couple of questions. The first question relates to the response to part (b) of our -- of the TCQ, and there is a chart there that shows the benefits that have been removed from the template, that is, the line 7 of that template, and I think it's self-explanatory.

My question is: What is the difference between what is included as being removed from line 7, as per the upper chart, for example 215, 23.71 million, and what is in the lower chart for -- in other words, which benefits did you remove and which ones did you not from the claimed benefits under the BRP, benefits realization plan, for the CIS?

Can you explain that? Thank you.

MR. BOWNESS: With respect to the EP6 question, around the difference, as I understand it, in 2015 of total benefits of 35 million versus the 2015 benefits of 23.7 million that is in the CIS template, the delta between those two items are the avoided cost benefits, specifically within the IT area, around cost to upgrade specific systems that would no longer be required as we are replacing the CIS system.

DR. HIGGIN: Just as a corollary, the delta, which in this case is approximately $12 million, where does that appear? It's not attributed to the CIS? It is a reduction to OM&A? How is that delta, that difference? Where does that appear, and why isn't it attributed as a benefit to CIS?

MR. BOWNESS: The delta in savings is not currently in rate base, because we did not originally have the funding associated with that implementation cost in our original rate base submission per the prior file.

DR. HIGGIN: Okay, I understand. Thank you, I understand.

So then the next question is just as a follow-up clarification to this. When we look at the levelized cost schedule that you've provided, I just -- which is to part (e) of this response – if we could turn that up; that's on page three of the response - I would just like to understand, first of all, with the top line on the average cost per customer comparison, just dealing with the total there of 213 to 24, a total CIS cost of 40 percent equity of 183.87 million, and then if you look down, the total cost CIS at 40 percent equity, 213 to 224, 237.95 million.

Can you explain the difference as to how those amounts are calculated, and the difference? Thank you.

MR. BOWNESS: Yes, I can. The table number 1 is actually reflected in dollars, not millions of dollars. Table 2 is in millions of dollars. So purely that 183.87 dollars is the sum of the dollar amount from 2013 to 20 --

DR. HIGGIN: And it is the average cost per customer at 180 --

MR. BOWNESS: Yes.

DR. HIGGIN: Thank you, that explains that. If we look at note 2, just a follow-up to understand note 2. Note 2 says that this, which I think you can confirm, relates to line four of the first chart, says that this is the amount ratepayers would have been asked to pay, if the project did not have any financial benefits.

Perhaps you could explain that note to me, just so I understand.

MR. BOWNESS: So the note associated with table 1, item I, is with respect to line 7 from our CIS template, and purely dividing that number by our total customers within that year.

DR. HIGGIN: That's not netting out benefits?

MR. BOWNESS: That's not netting out benefits from 2015 onward. The benefits from 2015 onward would be netted out in the CIS template in row 8, which would be the line two average cost per customer as filed.

DR. HIGGIN: Okay, that's helpful. That explains the note. Thank you very much.

Now just as you know, in the thing we did ask - it probably is rhetorical, but anyway we will ask – you in parts (f) and (g) of the question: Is Hydro prepared to commit to a 10-year levelized cost per customer for CIS and, if not, why not.

So the question -- you didn't answer that question and maybe it's not suitable for a technical conference. But nonetheless, you can understand where ratepayers are going with this one.

MS. FRANK: I understand the interest in the question. I also assume you understand the technical difficulties with trying to keep the benefits associated with the project over a 10-year period because, in reality, many of these benefits are in parts of our organization where six, seven, eight years from now we'll actually be defending what our customer service costs are, having deducted the improvements that we can have by putting the system in.

And trying to, down the road, defend a level of expenditures that is higher than we're actually expending because we’ve got the benefits in the system, to me sounded incredibly confusing.

So we thought trying to levelize this over ten years and keeping the benefits with the project, and not actually putting them into the parts of the organization that are to achieve the benefits, would do two things: one, be difficult to explain when we're here defending that rate application in the future; and two, we really want to assure that that party is achieving the benefits.

So we will -- as we do our business planning and budgeting, we will take that amount of money out. They're not going to have it.

So levelizing this for ten years would do a mis-match in terms of where the benefits really are occurring.

DR. HIGGIN: We shouldn't debate this. As you know, a deal was done with Enbridge regarding a levelized cost, and that's where we're coming from. So we’ll just leave it there, thank you.

MS. FRANK: I would say we are -- we were looking at the two years, Roger, when we were looking at the treatment, particularly around treatment for tax. We tried to keep it so we would deal with that on a more level basis. We just didn’t go --

DR. HIGGIN: That was my original IR -- it was over the two year, and I extended it to --

MS. FRANK: I appreciate it, but it would be a challenge.

DR. HIGGIN: Thank you very much for your responses. I appreciate it.

MR. MILLAR: I would like to continue through the room on CIS.

Mark, did you have anything for CIS left? Do you mind going? Thanks.

QUESTIONS BY MR. RUBENSTEIN:

MR. RUBENSTEIN: SEC No. 23, we asked for a breakdown of certain information. Actually, I think we gave the wrong reference, but you seem to know what we were talking about.

Breakdown of lines 4 through 7 was in the original interrogatory, and talked about -- lines 4 through 6 --

that you couldn't provide the breakdown for some commercially sensitive reasons. And then:

"If the Board deems production of this information is necessary to determine the prudency of the CIS project, then Hydro One would be prepared to discuss filing this information in confidence in accordance with the OEB guidelines."

So it's clearly our position that this information is relevant to determining the prudency, so we would ask that you produce it. And I understand your reluctance, so I would ask that you do what the guidelines would state. You would file the information in confidence, and the Board would handle it, seek submissions where it feels it needs to seek submissions in the general course.

MS. FRANK: If we have that treatment where -- this is contract information. That's why the in confidence, but with the Board's agreement that we can treat it in that way, we will provide the details.

MR. MILLAR: Obviously, Staff can't bind the Board in that fashion. There is a process for filing documents on a confidential basis, and then parties are entitled to make submissions on whether or not they should be confidential in light of the Board's practice direction.

So we're not in a position to make any guarantees. You may get Schools to agree that they don't object to confidential status. I'm not sure of anyone else does.

Ultimately, that's a call that the Board has to make.

MR. RUBENSTEIN: I can't make that guarantee, because usually I see the documents in confidence. But I take your point and I -- sort of on a broader principle, I don't think that we would be disagreeing with that. I just can't take that position here.

MS. FRANK: We'll have faith in the process. And since this is contracting and we're about to enter these contracts, we certainly would rather they weren't on the public record. It wouldn't be in the customers' best interest if we put them on the public record.

But we will file it in confidence.

MR. THIESSEN: Shall we call that a transcript undertaking? TC1.

UNDERTAKING NO. TC1: TO PROVIDE BREAKDOWN OF CIS-RELATED INFORMATION.

MR. RUBENSTEIN: Those are all my questions.

MR. MILLAR: Thank you very much.

Bill, you had a couple; is that right?

QUESTIONS BY MR. HARPER:

MR. HARPER: Just a couple as follow-ups to a couple of the answers that you gave.

The first is if you go to VECC Technical Conference No. 4, and it was part (e). I'm not sure if you have to turn it up because your answer was pretty short and the question is pretty simple, but the background of this is we were trying to get at the non-discretion -- the issue of CIS being non-discretionary spending.

And one of the positions that had been put forward was the vendor had ceased to support the existing CIS system, and the question was basically asking: When did the vendor cease to support it?

I was expecting to see a date something like 2011, 2012, and therefore we have to act. And when I got a response back, if I understand it correctly, you said the vendor ceased support in 2001. And given that was, like, 13 years ago, I was wondering sort of what took us to, at this point in time, this becomes the critical tipping point that, you know -- it wasn't a problem in 2006 or 2009, but it's now a problem in 2013.

If maybe you could address that for me, that would be useful.

MR. BOWNESS: With respect to the question being -- 2001 being the date the vendor stopped supporting, Anderson Consulting Accenture was the vendor for the Customer 1 implementation.

From a product perspective, they ceased developing and implementing that in the late '90s. There were implementations in 1988 and 1989. And approximately in 2000, 2001 they changed their direction to start supporting implementation of SAP Oracle-based solutions, and they ceased developing and providing support for the Customer 1 platform.

Between that date and today, we have been supporting this with our outsourcer, from a custom development perspective. And as we have proceeded to make numerous changes within that system, coupled with the demands of additional requests for changes into that environment, we have also seen some performance degradation within the existing system. Bringing all of those elements together, we've determined from our perspective that this system is at the end of its useful life and needs to be replaced.

MR. HARPER: When you say "performance degradation," maybe you could give us a couple of examples of what specifically you saw in terms of degradation of performance?

MR. BOWNESS: Within our existing IT environment there's two elements of performance that we look at. One is the performance of the mainframe as we're executing the batch runs at night from a billing perspective, as well as the availability of the system during the peak volume call times, and having our agents being able to respond to customers in a timely fashion with getting adequate response from the system.

MR. HARPER: So it was problems with both of those areas that -- when you refer to degradation of service?

MR. BOWNESS: Those are one of the contributing elements as to why we have determined and deemed this system at its end of its useful life.

MR. HARPER: Fine. Thank you.

The second and last one I had was your response -- and actually there's two things, probably, to look at concurrently. One is the response to VECC Technical Conference No. 19, and the second would be the table this was really referring to, which I believe is found in

Exhibit B, tab 3, schedule 1, and it's table 3 there.

And maybe if we look at -- and maybe we just look at Exhibit B and we can refer back to the IR if we have to.

As I understand it from the response to the IR, that lines 1 through 6 are all OM&A costs?

MR. BOWNESS: Yes, these are the OM&A costs.

MR. HARPER: Right. In response to VECC 19, the post-2013 costs don't include that $13.6 million in OM&A that was referenced in one of the Energy Probe IRs, and I think was also part of the topic of Dr. Higgin was just talking with you a minute ago?

MR. BOWNESS: Yes. Sorry, from a point of clarification, these are the OM&A operational costs of running the system. These don't include the OM&A project implementation costs of 24.4 million.

MR. HARPER: Actually, that is where I was going in the question, was trying to understand what the distinction was, why some costs were in there and why some costs weren't.

So the other was the OM&A implementation costs, and is there any particular reason why they were characterized as OM&A, as opposed to being capitalized as part of the overall cost of the project, if they're related with implementation of the project?

MR. BOWNESS: Yes, from a project implementation perspective, according to our accounting rules, there are certain elements of the project that can't be capitalized, such as change management and training. Those would be a couple specific examples of things that can't be capitalized, according to accounting policies.

MR. HARPER: I know you aren't even looking at MIFRS, so that's existing CGAAP-type or US GAAP accounting policies, is what you'd be referring to?

MR. BOWNESS: Yes, that's correct.

MR. HARPER: Fine. Thank you. Those are all the clarification questions I had. Thanks.

MR. MILLAR: Thank you. I think only Staff has questions on this; am I correct? I think both Mr. Zwarenstein and Ms. O'Connell have some questions.

QUESTIONS BY MR. ZWARENSTEIN:

MR. ZWARENSTEIN: I just have one question and that is: Is Hydro subject to any contractual costs for early conversion to the new system, and therefore not making use of the contracted services with Inergi? That is Technical Conference Question 3(c).

MR. BOWNESS: Hydro One is not subject to any contractual costs based on the early conversion to CIS. We have provisions within our existing agreement for support of like-for-like system replacements.

QUESTIONS BY MS. O'CONNELL:

MS. O'CONNELL: Hello, hi. I don't know if my questions lie here or not, but it's the response to Staff Technical Question No. 13 regarding the line loss variance. It's to do with CIS.

UNIDENTIFIED MALE SPEAKER: Let's try it.

MS. O'CONNELL: Okay, sure. Thank you for responding to the question. I just have some follow-up questions, and that is -- I guess you're still undertaking the study to assess the line loss variance from the date of decision, April 2010?

MS. FRANK: Yes, we are.

MS. O'CONNELL: Okay. And when is the estimated date of completion of this study?

MS. FRANK: We intend to have it ready for our next cost of service filing.

MS. O'CONNELL: Which will be?

MS. FRANK: That's a more challenging question. A lot of that depends on what's happening with the renewed regulatory framework, and also really this proceeding. Under any circumstance, we are very capital intensive in this period, and we want to find the most efficient way of getting recovery of that capital.

If this is the most efficient way, then we will have another IRM for 2014. If this isn't efficient, we'll look at the custom IR.

MS. O'CONNELL: The reason I ask that is because I understand from the decision in the last cost of service that the Board directed you to track the variances for the line losses, and I'm just wondering at what point you're actually going to record these in a GL.

When you do make this final assessment and study is complete, will you go back to January 1, 2010 and record that variance in account 1588 for regulatory purposes? I'm not talking about your audited financial statements.

MS. FRANK: And I can't answer that question at this time, because the study is not complete and I don't know what would be required to be able to go back in time, and if we'd have the information or not. So I don't know.

MS. O'CONNELL: Okay. In another part of your answer, you said you're seeking Board's approval for your -- for your eventual final outcome of the study, whichever is the most appealing or attractive method to track the line losses; you're seeking Board's approval for that in the next cost of service.

My question is: Have you sought approval from the Board for your methodology to establish other estimates, such as unbilled revenue?

MS. FRANK: I think the line loss issue is more complex than the other line loss -- line loss is quite difficult. The other RSVA accounts are really just a difference between what we have to pay the ISO, and what we collect from our customers; they're relatively mechanical.

So I think the line loss has special needs and special considerations, and that's why we need to have the Board's endorsement of our approach.

MS. O'CONNELL: Okay. So it's -- from what I understand from reading your answers, Hydro One does not want to put a proxy in the account for an estimate for these line losses, until the actual -- an actual, more accurate number can be done -- can be calculated based on the outcome of this study?

MS. FRANK: That's correct.

MS. O'CONNELL: And I understand that some of your billing cycles are six months in nature, so that you would have an estimate for unbilled revenue. So why can't you do an estimate for line losses?

MS. FRANK: We don't have the information from our systems to actually do such an estimate today. So it would be – we've tried looking at this in the past. This is not the first time this issue has come up.

MS. O'CONNELL: No.

MS. FRANK: And in many ways I don't know that it's appropriate to come up in an IRM proceeding.

I want to say that we do have faith that we'll get there once we have all of our information in, with our smart meters and our smart grid and some of the work we would be prepared to talk about, that Mr. Stevens will speak to -- will help us with this. We're just not there today.

MS. O'CONNELL: Okay, thank you.

MR. MILLAR: I think that concludes all the CIS questions. Last call for CIS?

Mr. Rogers, if you like, you could excuse the witnesses.

MR. ROGERS: I would like to thank everybody for your cooperation. I know that Mr. Bowness, in particular, is grateful.

I think – so Mr. Bowness, I guess you and Mr. D'Arcey can then withdraw, and leave your two colleagues to answer the rest of the questions. Thank you, very much.

[Mr. Bowness and Mr. D'Arcey withdraw]

MR. MILLAR: We'll now proceed on sort of a party-by-party basis to get through the rest of the questions.

Do we have a volunteer to go next? Is anyone looking to get out of here?

MR. ROGERS: I'd like to.

MR. MILLAR: Roger, we started with you before. Are you prepared to go again?

DR. HIGGIN: Yes, I'm ready to go.

MR. MILLAR: Thank you.

QUESTIONS BY DR. HIGGIN:

DR. HIGGIN: So from my understanding of what's on the table for Ms. Frank and Mr. Stevens, I have some follow-up questions from my colleague regarding escalated costs, and specifically Energy Probe TCQ Nos. 1 and 2, which relate to pole replacement, okay?

So can we start with TCQ 1? TCQ 1 is dealing primarily with part (f) of the response, and I guess the premise here is understanding why Hydro One did not pursue legal action to recover the costs of defective poles from the supplier or suppliers. That's the fundamental question. Thank you.

MR. STEVENS: The main reason was that we approached legal counsel with it to discuss our probability, and also potential outcome, and evaluating the actual vendor. At the time, we didn't believe – well, we knew that they didn't have the financial resources to settle the actual cost involved.

DR. HIGGIN: But they were on your approved supplier list and therefore should have had credit, I would assume.

MR. STEVENS: Yes, but as I mentioned, they didn't have the financial resources. They would have gone through our vendor approval process, but we’re talking about a large program here.

DR. HIGGIN: So are they still on the supplier list?

MR. STEVENS: No.

DR. HIGGIN: All right. Is the type of pole that was involved still on the supply list, or has it been struck off, too?

MR. STEVENS: We've actually changed the specification for poles as a result of this incident.

DR. HIGGIN: So following up now, how many poles that are being replaced – now, if we could perhaps look at the numbers, that would be in the Board Staff No. 10 that we were referred – that’s Exhibit I, tab 2, schedule 109; Staff 10, part (h) and (i), if you could look at that. Do you have that?

MR. STEVENS: I do have that, yes.

DR. HIGGIN: What we’d just like to know is, of the bottom in (i), the poles that were replaced due to a failure, how many were and are being replaced due to that particular defect, the defective poles. That's what we're trying to understand. How many of these guys are there out there?

MR. STEVENS: The question of how many are out there is approximately 55,000.

DR. HIGGIN: Of defective poles? No, please don't tell me that.

MR. STEVENS: Of the red pine variety. Yes, that's correct.

DR. HIGGIN: So what I then -- obviously, we would be concerned as to the rate of which you're now replacing those, and that's why you've gone to escalated issue.

And the question is given that fleet of poles, how many years is it going to take you to replace 55,000 red pine poles?

MR. STEVENS: Our current plan is to replace them over 15 years. However, because we do an assessment of all the poles, we will actually replace both those and ongoing deteriorated condition poles throughout the years, year by year.

So we have constant information about which poles should be replaced based on condition. This would be a subset of an ongoing program.

DR. HIGGIN: All right. Thank you. That's information that was asked for by Mr. Faye. Thank you.

My other question from Mr. Faye regards the spare transformer inventory and fleet, and perhaps we could start by looking at Energy Probe TCQ No. 8 as a starting point. Do you have that?

MR. STEVENS: I can't find it.

DR. HIGGIN: Sorry. I'm sorry, I'm referring you now to the -- to Exhibit I, tab 2, schedule 207, EP 8, which was the original IR. Do you have that?

MR. STEVENS: I have Exhibit I, tab 2, schedule 207, EP 8.

DR. HIGGIN: That's the one, yes, with the table that shows the spares.

And the question, I think, that Mr. Faye is trying to get -- understand is: What was it that triggered this into -- from typical capital into escalated issue capital? In other words, prior to the current application, the transformer fleet was -- spare transformer fleet was a mixture of new and refurbished units, and they were in inventory and so on. And now you've made a decision to basically go with new ones instead of refurbishment. And now it's an escalated issue.

And he would like to understand what has triggered that particular change in policy and direction, and the cost consequences that are associated with that.

MR. STEVENS: The operating spares pool has always been below the threshold that we would like to have it at, based on risk assessment. That, combined with -- you'll see in the evidence -- the demographics are our existing transformer fleet, which is, in fact, aging and the performance is deteriorating.

The combination of those two, as well as the activity that we're projecting going forward to replace assets, really triggered the need to ensure we have adequate spares in place.

DR. HIGGIN: I guess a corollary question that he had was: Is this the correct point to change the classification, in an IRM year?

That's a corollary question if you wish to address that one, as to what was it that drove it. I mean, a cost of service application year would be more appropriate to change this classification.

MR. STEVENS: I guess it goes hand in hand with the actual transformer replacement escalated item, as well. So we are requesting that we be allowed to increase the activity in 2013 of actual replacements, and this goes hand in hand with that.

DR. HIGGIN: So you need more spares?

MR. STEVENS: We need more spares.

DR. HIGGIN: Thank you. That answers the question. Thank you. So that's on the escalated capital issue. And then I had some questions related to the IRM, ICM calculations, and basically -- let me look. I don't think we had a question on this -- oh, yes, we did.

This would be Energy Probe TCQ No. 5, and the reference there includes the VECC Exhibit I, tab 2, schedule 505, VECC 8, which has now been updated. You provided a separate file to update that. And the topic of this question is focusing on in-service additions. That's the topic here. It's not CAPEX; it's in-service additions and the ability to forecast in-service additions.

And as you would remember, MS. Frank, from the TX proceeding, this was an issue that was of interest to the intervenors.

So our question asked you basically to provide the same information that you did for the TX after Schools' motion to provide the actual in-service dates, and you referred us to a number of schedules, which are all aggregated annual costs of ISAs; 414, for example, million as an ISA for 2013.

So we would like to still have that -- some reasonable level of granularity for 2012 and 2013. What is the forecast ISAs by month or by quarter?

Can I just add that we're not interested, obviously, in the CIS and so on? It would be the other cap -- other typical capital. It's the 414 number, and the CAPEX that relates to it.

MS. FRANK: So what I was looking for was additional information that we provided, and we realize that the interest in the typical capital and our approach to defend the typical capital was driving a lot of questions. So we thought it was time we needed to provide some more information.

I want to first of all take a moment, if I can, to explain why we defended typical capital in the way that we had, if that... Okay. Thank you.

Our thinking was that we're looking for an efficient way of going through these proceedings. And what seemed efficient when we did IRM with OM&A was to say: As long as you're spending at the same level that you did in cost of service year, there is no need to look at OM&A. It's done. And we thought: Well, as long as we spend the capital, the ongoing typical capital at the same level as was approved in the last cost of service, should it not also be done? As long as you spend at the same level, no need to go in and review those in detail?

And our thinking was that really the OM&A, every dollar of OM&A is a dollar of revenue requirement, whereas capital, every dollar of capital is, you know, a fraction, maybe 10 cents or something.

So why would you put more scrutiny on something that the Board already examined? So that was our approach. I still believe that's right. That's what I want to say; I still believe that's right.

However, obviously it was not satisfying. So what we did is in the Technical Conference Question from VECC, No. 5, if you'll notice that part (a) to that question talked about the historic spend, and if you’ll notice now there are many, many descriptions of the projects that are in the typical capital. And if you look at those, you'll see that the in-service date is listed for each of these projects.

So if you – but you have to turn to VECC 5, and it is a package of several capital projects, and you'll see the in-service date.

DR. HIGGIN: Talking about VECC TCQ 5?

MS. FRANK: Yes, I am.

DR. HIGGIN: Thank you, let me just look at that. I think in following this up, I did not see the attachment. I saw the summary tables, but I didn't see the attachment.

So maybe I should, for now, just take a look at that, and see if that satisfies the requirement, and maybe get back to you on whether that does.

So can we just leave that one for a moment, until I have a chance to look at that? Because I have to carry on questions. All right?

MS. FRANK: All right.

DR. HIGGIN: Thank you, very much; we'll do that. The other thing that we're interested in is actually a new area that wasn't part of the TCQs, but is nonetheless of interest.

As you would realize, the Board issued its new November 15th letter on cost of capital parameter updates. And prior to that, it had also issued a letter regarding the IRM portion of applications.

I'm not focusing on the 2.2 percent escalator and the impact that is on the CPI minus X, but on the -- focusing on the ICM piece of that.

And if we could look at where you are right now, and what -- that evidence that’s been filed, perhaps we could look at Exhibit I, tab 2, 101 Staff 2, attachment 2, if we could find that one, take a minute. And I'm focusing on page 9 and beyond, and specifically on page --

MR. ROGERS: Let’s take a moment to find that.

DR. HIGGIN: That's fine.

MS. FRANK: I have that now.

DR. HIGGIN: Thank you. So if we would -- what I would like to ask for is that if you could give us an update of page 12, the incremental capital adjustment.

As you know, when you filed it was something like

26 million, and then you basically did this update when the capital was forecast at 9.13. And as you know from the Board’s letter, it is now down to 8.83; okay.

So the question is: Would you be willing to update this schedule in accordance with the Board's latest cost of capital parameter, to show what the current revenue requirement associated with the ICM would be?

MS. FRANK: I actually know that information, so It’s --

DR. HIGGIN: Good.

MS. FRANK: Can I just tell you? Would that work?

DR. HIGGIN: That would work, if you can tell me the bottom line. That would be --

MS. FRANK: Yes, the bottom line. So because it changed a few things, it changed the -- not only the return on equity which went down from -- we had used 9.16; it went down to 8.93. But there are other items, like the return on long-term debt, which we had filed at 4.94, would be 5.03. So there were changes. Short-term debt was basically unchanged.

So the bottom line is slightly down, but it's only $250,000 down.

DR. HIGGIN: That's disappointing.

MS. FRANK: I appreciate that. I apologize, but -- so the number now would be 25.9.

DR. HIGGIN: 25?

MS. FRANK: Point 9.

DR. HIGGIN: This number is 25.284.

MS. FRANK: But 26.17 would have been the number. Actually, where I'm looking --
DR. HIGGIN: I’m at page 12 of the --
MS. FRANK: Actually, where I want to take you is to, I think, a better place because it has more detail.
So if you go to -- in the pre-filed evidence, so Exhibit B, tab 1, schedule 2, and it's page 5 of 6. And that has all the descriptions of the various types of capital and the total amount that we're seeking, the 26.17.
DR. HIGGIN: And how does that compare to the one I pointed to, in terms of -- I thought that was the latest one, because it was October as opposed to June, when you filed the original one. I thought it was the latest one, which is on attachment two to the Staff interrogatory.
MS. FRANK: I'm not convinced this is dealing with all -- I think those numbers that you're looking at are even older.
DR. HIGGIN: Old? But it says on the top October 11th, and the B Exhibit was June.
MS. FRANK: Roger, can I take that one and --
DR. HIGGIN: Sure, yeah. I'm not trying to pressure. So just put a technical conference JT on that, please, and get back to me?
MR. THIESSEN: That would be TC No. 2.
UNDERTAKING NO. TC2: TO UPDATE EXHIBIT I, TAB 2, 101 STAFF 2, ATTACHMENT 2, PAGE 9 TO CONFORM TO THE BOARD'S LATEST COST OF CAPITAL PARAMETERS
DR. HIGGIN: But the request is to update to conform

to the Board's latest cost of capital parameters. That's the request.

MS. FRANK: Right.

DR. HIGGIN: Thank you, those are my questions. I will in the -- while somebody else goes, I'll have a quick look at VECC 8 and see if that works for me.

Okay. Thank you, very much.

MR. STEVENS: VECC 5.

DR. HIGGIN: VECC 5, sorry. Thank you.

QUESTIONS BY MR. MILLAR:

MR. MILLAR: Thanks, Roger. Just quickly on that point, Susan, do you mind if I ask a quick question on VECC 5? It might assist others in their review of it.

These – this has now provided a list. Is it all capital projects in 2013 over one million? So it’s not just typical capital; it would be every single capital project you propose?

MS. FRANK: No. It is the typical capital projects -- and if you look at actually page 2 of VECC 5, you'll see the categories. And what we've done is we've picked up projects rather than programs, and the total that we’ve picked up here is only 132. It's not the entire capital program, or everything over one million dollars.

MR. MILLAR: So what's excluded from it?

MS. FRANK: Programs that would have been in the base amount, consistent with what was previously approved. These are projects.

MR. MILLAR: I see, okay. Thank you for that.

MS. FRANK: And the escalated isn't in here either.

MR. MILLAR: Right.

DR. HIGGIN: I did have a chance to look at VECC 5, and what I see on first blush is the fact that there’s a heck of a lot of projects with December 2013 as a -- so therefore, I missed -- I'll have some questions about that.

But anyway, I will look at the schedule you’ve provided. Thank you.

MR. MILLAR: Thank you. Julie, do you want to go next?

QUESTIONS BY MS. GIRVAN:

MS. GIRVAN: Yes, sure. I actually have just one set of questions, Susan.

If you could turn to CCC No. 4, please, that Technical Conference Question No. 4?

I'm just looking at actual versus Board-approved spending in 2010 and '11. And I just wondered if you could, either by undertaking or maybe you know, if you could explain the variance.

So particularly in 2010, the spend was almost $40 million less than Board approved. So if you could explain both 2010 and '11?

[Witness panel confer]

MS. FRANK: I was just checking if my colleague actually had the details. I think I'll have to take an undertaking on that.

MS. GIRVAN: That would be useful.

MS. FRANK: Can you clarify what you're looking for?

MS. GIRVAN: Yes, I’d like a variance analysis with respect to 2010 and '11 on the typical capital spending amounts.

MS. FRANK: The difference between the Board-approved --

MS. GIRVAN: Board-approved and actuals.

MS. FRANK: -- and the actuals?

MS. GIRVAN: Yes.

MR. MILLAR: That will be JT3 – sorry, TC3.

UNDERTAKING NO. TC3: TO PROVIDE THE VARIANCE ANALYSIS IN BOARD-APPROVED AND ACTUALS WITH RESPECT TO 2010 AND '11 ON THE TYPICAL CAPITAL SPENDING AMOUNTS; REFERENCE CCC TCQ NO. 4

MS. GIRVAN: And again, this is sort of related. If you turn to CCC No. 5, and this is the sort of 2012 year-to-date amounts, and I just wondered if you have anything further to add to this in terms of is this -- year-to-date up to September 30th. We're now -- another month has passed.

What I would like to see is Board-approved versus what you expect to spend by the end of the year for 2012.

MS. FRANK: We wouldn't have a Board-approved for 2012, because we didn't actually have an application for 2012.

MS. GIRVAN: You're right. Okay.

MS. FRANK: So the last Board-approved we have is 2011.

MS. GIRVAN: Could you tell me where you think you're going to land, relative to this number, for year-end? Sort of a 9 and 3 forecast?

MS. FRANK: I know that information is in this filing.

MS. GIRVAN: Okay.

MS. FRANK: So maybe we can take a minute to find it. Why don't you give me time over break, and I'll find it then?

MS. GIRVAN: That's great. Thank you.

Now, just one further question. Is Mr. Stevens the one to ask questions about the smart grid rate adder?

MS. FRANK: Yes, he is.

MR. NIXON: We will try.

So we have asked in an initial interrogatory about smart grid, and the way costs are being recovered and the revenue approach. We asked a follow-up question again, and we seem to be getting back to the same answer that says that Hydro One is following Board-approved methodology.

I guess where we're coming from here on this one is that I'm not entirely sure that the benefit is related to volumes consumed, and we see this as a benefit to all consumers in Ontario, Hydro One customers. It would seem to me that assessing that revenue recovery on the basis of volume needs some more justification than: Well, that's the way they did it in Guelph and Kingston and Oakville.

MS. FRANK: I'm actually going to send you to the next panel for the answer for that one, because that's where our rate design person is.

I thought you were going to ask about smart grid expenditures. Smart grid expenditures we can handle, but the actual treatment of how you collect it and the rate design aspects, Mr. Henry Andre, who will be up on the next panel, will be prepared to handle that.

MR. NIXON: Thank you.

MR. MILLAR: We're probably getting close to time for a break. Let me get a canvass on questions for this panel.

Mark, how long do you think you will be with this panel? Okay. Bill?

MR. HARPER: Probably a bit longer than that.

MR. MILLAR: Okay. Shelley?

MS. GRICE: Two minutes.

MR. MILLAR: Two minutes? Why don't we do you? Are you ready to go and --

MS. GRICE: We have one follow-up question from the Technical Conference Questions, and it has to do -– sorry, I'm looking for my -- it's okay. It has to do with AMPCO Question No. 3.

We asked a question for the technical conference. Just in light of the fact that the Board has issued its renewed regulatory framework October the 18th, we just wanted to have an opinion from you in terms of what influence that report has on this application and applications moving forward.

And you mentioned something earlier this morning to partly answer that question. I just wondered if you had anything else to add.

MS. FRANK: I actually thank you for the opportunity, because I have some concerns that the renewed regulatory framework has adopted the capital module pretty much unchanged from what we've seen in the current approach to the capital module. If anything, it's added a year, so one more year of a period where it's a struggle to find a way to get the capital that's necessary to run the business.

So I think that the ICM is attempting to deal with prudently incurred capital on a basis that is, I'm going to say, efficient and has a benefit to customers in terms of smoothing both the rates and the performance of the system.

I'm not convinced that today we're all the way there, and our application in many ways is an attempt to find a way to make the ICM longer-lasting. So I'm not convinced that -- you're asking me did the new ones actually -- the new rules actually help, and I'm not convinced they do.

MS. GRICE: Okay. Thank you.

MR. MILLAR: Richard, do you have anything for this panel?

MR. STEPHENSON: I do. I can do it in about five minutes or less.

MR. MILLAR: Why don't we do that, and then we'll take our morning break?

QUESTIONS BY MR. STEPHENSON:

MR. STEPHENSON: Do you have my questions anywhere handy? I only had two of them.

And the first one is talking about asset condition information and Cornerstone. Essentially, the question really is this.

In a response to Staff Interrogatory No. 2, you had indicated in relation to wood pole and distribution system replacement that you have received -- you have now more and better asset condition information available, and that has assisted you in developing your replacement program. And the question we had for you was: What role, if any, does Cornerstone play in the availability of that new and better asset condition information?

MR. STEVENS: There's two aspects to that. I'm not the Cornerstone expert, but I'll take a crack at it.

Cornerstone Phase 1 was our asset work management implementation, and under that program we were able to consolidate a lot of sources of information, some of which were spreadsheet into a single, enterprise-wide application. And we've been, since then, filling up that container, if you will.

The other aspect, asset analytics, we went live with an early release in May, and that's the analytic tool that actually allows us to mine that data for assess performance, demographic condition-type information. The full implementation of that is likely Q1 of 2013.

MR. STEPHENSON: Am I right that when you refer to this, in effect, more and better asset condition information available, it is one of the tools that has part of that?

MR. STEVENS: Correct.

MR. STEPHENSON: The only other question I had for you was this question about the reliability indices, and it's the nexus between the reliability indices and the ability to identify the need, essentially, for increased investment in asset replacement.

And the question is how long a time frame of SAIDI, SAIFI and CAIDI information is required to determine a trend in system reliability performance resulting from under-investment in the system?

MR. STEVENS: Looking at those items -- I mean there's a lot of variables associated with SAIDI, SAIFI, CAIDI. I mean storms, number of connections, and then ultimately you get down to age and performance of assets.

What we like to do is actually look at age and performance and condition of assets. It's an easier assessment for us to look at. Trying to unbundle SAIDI is difficult.

MR. STEPHENSON: And these are macro indices, and so is the answer that they aren't very helpful as trend indicators for you, in terms of the pace of asset replacement that's required?

MR. STEVENS: I wouldn't say they're not helpful. But, as you point out, they -- you know, you do require a longer term view to see those trends and how they emerge over time.

MR. STEPHENSON: In terms of the SAIDI and SAIFI and CAIDI, just to follow up on that, you've reported certain data in this -- in your filing. And, I mean, are you relying on that data as -- in support of your application, in terms of the need for the enhanced asset replacement?

Or is that simply, at this stage, provided for information?

MR. STEVENS: It's an indicator, and we do a couple things with it. So one would be assess the long-term trends; are we doing better, are we doing worse.

We also look at it in relations to other utilities out there, on a like-for-like basis, to see how we're performing relative to others. And based on that, we look at where we think we need to be.

But, I mean, the real assessment that's done to determine how fast we want to do a program, or why we want to escalate at this period of time, really looks at the actual condition of the asset, and longer term bow wave of replacement that we're faced with.

MR. STEPHENSON: Thank you.

MR. MILLAR: Okay. Why don't we take our morning break and come back in twenty minutes.

--- Recess taken at 11:05 a.m.

--- On resuming at 11:25 a.m.

MR. MILLAR: Why don't we get started again, continuing with panel 1?

Mark, are you prepared to go next?

MS. FRANK: Can I...

MR. MILLAR: Yes.

MS. FRANK: I took a -- go find a number before break, and I have found. So maybe we should put that on the record.

MR. MILLAR: All right.

MS. FRANK: Ms. Girvan was asking about CCC Technical

Question No. 5, and we had given September year-to-date spending on the typical capital, and it was 319.

And actually, back in an IR we had done a year-end forecast, also a CCC question. So it was Exhibit 1, tab 2, schedule 703, CCC No. 7.

And the total capital forecast for 2012 that we provided on that piece of paper was 443.9, and we believe that continues to be an accurate forecast. So we're a little bit over 300, and need to get, like, 443. So we believe that's on track.

MS. GIRVAN: Thank you.

QUESTIONS BY MR. RUBENSTEIN:

MR. RUBENSTEIN: Do you have our Technical Conference Questions in front of you, a copy of them? Probably best that I'm simply just going to read the ones you didn't answer.

MS. FRANK: Yes, we do.

MR. RUBENSTEIN: So the first is referencing VECC Interrogatory No. 2, and we're asking if you could:

> "Please provide details with respect to all ways in which the meaning, the spirit and intent of the Board's approach requires a reinterpretation of the existing policy."

MS. FRANK: I think what you need to go back to, you know, what do we think the spirit and intent of the Board is when it comes to the IRM filings, and ICM in particular.

And I think certainly we'd recognize that the Board understands -- actually, the Chair, Rosemarie Leclair, even back a year ago, on November 21st of 2011, indicated that this is a capital-intensive period.

So I think one of the spirit and intents is we have to deal with a way to deal with a capital-intensive period. The Board recognizes that we're in such a period.

And then the second thing the Board would likely say is we need to be efficient in dealing with that capital-intensive period. And that's actually, I think, what the ICM is to deal with. It's an efficient way of making sure that the capital that is needed to be spent gets approved.

And I think that is the question we already had earlier this morning, about: How do you efficiently manage to have a prudent level of spending defended and approved?

So the ICM is to do that right now. It doesn't quite make it all the way there, and our objective is to try to find a way to be helpful to the Board, to actually find a way to get this capital-intensive period funded, using the ICM in a very efficient IRM approach.

And then finally, the Board is also interested in smoothing customer rates. Don't like these times when you have three years of just inflation minus productivity, followed by a fourth year -- today a fourth year, tomorrow a fifth year -- of a very high increase, when you delay all the capital to the fifth year. That's not very friendly to customers. Customers would rather see smaller and steady increases; at least that's what we hear from our customers when we go out to talk to them. They find this large -- unanticipated increases are very problematic to deal with.

Steady increases are fine.

So I think that the Board's spirit and intent relates to: We know it's capital-intensive. We want to be efficient. We want it to be smooth for customers.

We're on the same page as all that.

MR. RUBENSTEIN: SEC Question No. 3:

"Please provide all communications from the shareholder information, from rating agencies, communications from investment bankers or other similar evidence to support the sentence: 'Hydro One has no other means by which it can fund the proposed non-discretionary capital spending.'"

And this was in response to PWU Interrogatory No. 1.

MS. FRANK: The way that Hydro One funds the capital spending is to borrow the money. That's how we fund the capital spending.

First of all, this was referring to the way to actually get the spending funded is by borrowing the money, and the way you can borrow the money is to allow the credit rating agencies to know that you're going to get rates that will allow you to cover your costs and pay for the debt that you've borrowed.

The piece that I think best characterizes that type of concern is a piece that we haven't actually filed, but it is a report from Scotiabank on their global views. And there is a September 14, 2012 report, where they looked at the utilities. The author of that is Steven Dafor.

And Steven -- if I could read a tiny piece about this

-- he says -- and he was talking about utilities in general and also Toronto Hydro, as it turns out. So let me read this --

MR. RUBENSTEIN: Can I stop you for a second? Can you point to the exhibit number? I assume it's in the evidence.

MS. FRANK: It's not in evidence.

MR. RUBENSTEIN: Not in the evidence? Okay.

MS. FRANK: Not in evidence. I could -- we can correct that if you want.

MR. RUBENSTEIN: I'll let you go first, and then we'll take an undertaking for that.

MS. FRANK: So what Steven Dafor said is:

> “For a utility with a little mismatch between capital and depreciation the loss is immaterial. For some utilities with large capital programs..."

And he says particularly Toronto Hydro:

> "...the permanent loss of earnings will be material and cannot only affect shareholder returns, but could place significant pressure on credit ratings."

And he talks about the potential for such a dead weight loss, and he says:

> "...which we think is quite punitive compared to either cost of service or a form of IRM that applies only to OM&A and not to capital-related costs. This creates an incentive for utilities

to arrange capital spending so that it enters rate base in the base year application and then defers capital as much as possible until the next rebasing year. This and perhaps other perverse incentives could, in the view of many, lead to inefficiencies in capital planning and implementation, and could even push the envelope on the capacity, reliability and safety margins."

So I think that's, to us, likely the best description of the way that we need to fund this, is by getting the approvals.

MR. RUBENSTEIN: Have you spoken, or do you have any sort of information -- I mean, if you're funding this primarily through debt, have you any -- and this goes back to the question -- any communications or any specific information with rating agencies who rate Hydro One that you would not be able to do that?

MS. FRANK: The -- Scotiabank is an investment banker, and so that's not a credit rating agency, but it is a source of debt funding. And so I've read what their concern is, and I share their concern.

In terms of the credit rating agencies, as you know, our credit rating has deteriorated slightly and is now no longer stable, in the case of Moody's. So further expressions of concern, I would say.

MR. RUBENSTEIN: Can I conclude, then, from what you're saying, the basis of that statement, or how you've come to that, would be the Scotiabank report?

And the down -- your interpretation of the downgrades in the credit rating agency reports?

MS. FRANK: Yes. So it's primarily associated with the debt issues.

MR. RUBENSTEIN: Can we get an undertaking for the Scotiabank report?

MR. MILLAR: TC4.

UNDERTAKING NO. TC4: TO PROVIDE SCOTIABANK REPORT.

MR. RUBENSTEIN: Take you to SEC No. 4, part (a). This was with respect to the submission to your board of directors, and in Consumers Council Interrogatory No. 1, attachment 1:

> "Can you please explain the phrase: 'Have resulted in the distribution rate increase being requested for 2012 being below the required regulatory rate threshold for a cost of service application'?"

MS. FRANK: Sorry, can you take me back to the reference again?

MR. RUBENSTEIN: Sure. This is on page 1 of 28, CCC No. 1, attachment 1, the final bullet on that page.

MS. FRANK: This is not a technical conference question?

MR. RUBENSTEIN: No, sorry, it’s an interrogatory question.

MS. FRANK: That was my problem.

MR. RUBENSTEIN: My apologies.

MR. MILLAR: Mark, could I just ask you to speak into the mic a little bit more? The court reporter is having some trouble hearing you.

MS. FRANK: So now we're -- now that we have the right material.

MR. RUBENSTEIN: The final bullet on that page – I'll read the full bullet.

MS. FRANK: On page one of --

MR. RUBENSTEIN: Yes.

> "Subsequent regulatory decisions by the OEB, including the approval of the cost of service distribution applications to record costs in U.S. GAAP and revise cost of capital inputs, future income, tax, rate changes…"

And this is the part that we're seeking for you to explain.

> "…have resulted in the distribution rate application" – sorry -- "distribution rate increase being requested for 2012 being below the required regulatory rate threshold for a cost of service application."

MS. FRANK: And your question is?

MR. RUBENSTEIN: Can explain what you mean by the distribution rate increase being requested for 2012 being below the required regulatory rate threshold for a cost of service application?

MS. FRANK: About the time that this memo would have been written, there was information in terms of how the Board was treating cost of service applications that were in the middle of, I would say, an IRM period.

And what became clear -- originally there was -- we would have characterized it as guidance, that there had to be a threshold level of discomfort, pain, associated with the kind of returns that we -- we and other utilities treated that as guidance, not as a firm requirement.

It became clear about this time that it was indeed a firm requirement. The firm requirement is you had to fail by 300 bases points in a prior year return on equity below what the Board had allowed. And we were finding we were not at that point of failing.

MR. RUBENSTEIN: You're talking about the off ramp, head off ramp.

MS. FRANK: Yes, we didn't pass the off ramp.

MR. RUBENSTEIN: Thank you very much. As well question (b), and this is on the second page. This is the second bullet point on page 2, and it says:

> “As a result of these changes and assumptions and subsequent changes to future income tax rates, the 2012 budgeted revenues will increase by 40 million to 5658 million, and 2012 net income will increase by 29 million to 643 million."

And we're asking for -- could you please provide a detailed explanation, including calculations with respect to the increase of 40 million in budgeted revenues, and the increase of 29 million in the net income for 2012?

MS. FRANK: This actually relates to the change in assumption of should we be filing the cost of service filing or an IRM filing. And originally we thought we were filing a cost of service filing for 2012.

And then we said obviously, since we don't pass the test, we can't do that. And that meant that some of the variance accounts that we had at that point in time in 2012, that we thought we were going to be refunding could not be refunded.

And there's a smart meter variance account, as well as a distributed generation variance account, that would have been refunded under a cost of service, and either an IRM -- or, as it turns out, no filing for 2012 -- were not going to be refunded, and that's a material amount of the change.

MR. RUBENSTEIN: Thank you very much. You provided the answer to part (c), but I was wondering if you could update that answer to use the latest ROE calculation released by the Board. In your answer, you're using the 9.16 number.

MS. FRANK: Yes, we can do that. I think, given how many numbers are on this page, it would be better to do it by form of undertaking.

MR. RUBENSTEIN: And I would ask you the same thing about -- for part (g), which would be the same thing, if you can update -- you reference VECC 8, but if you can -- in your answer, if you could update that as well for the latest Board approved ROE.

MS. FRANK: VECC 8, I believe -- I'm not convinced -- VECC 8 refers to --

MR. HARPER: I think, if I can help, it would be part 12(c) where, as part of that question, we made a specific referral to the approved 2013 ROE. I assume the answer that you gave would have been based on the -- not the most current one.

MS. FRANK: 12 part (c). I see what you’re saying. Okay.

MR. RUBENSTEIN: That's the one you reference for your answer to (g) for ours.

MS. FRANK: Yes, we can do that.

MR. MILLAR: You can update both of those? So TC 5.

UNDERTAKING NO. TC5: TO UPDATE SEC IR NO. 4(C) AND VECC 8(C) USING THE BOARD’S LATEST ROE CALCULATION

MS. FRANK: I'm sorry, TC what?

MR. MILLAR: Five.

MS. FRANK: And just to make sure I have the record clear, so I'm updating SEC 4(c).

MR. RUBENSTEIN: Yes.

MS. FRANK: And VECC 8(c)?

MR. RUBENSTEIN: Yes.

MS. FRANK: Okay. Thank you.

MR. RUBENSTEIN: If I could take you to (h)? We ask if you can please compare the 4.9 percent rate increase in this document to the rate increase forecast in the November 2011 update, and provide the details on the main reasons for any difference.

MS. FRANK: The topic we have here is similar to the one we had a moment ago, with the $40 million of revenue. It's really the same issue, but now we're talking about rate increases.

And a helpful place, at least somewhat helpful, is to go to the Board material that we looked at a moment ago, only this time on page 27 rather than the covering memo for it. Do you need the reference, or do you still have that open?

MR. RUBENSTEIN: I have it.

MS. FRANK: Okay, so page 27. And as much as it's a little bit hard to see here, you'll notice that the -- for 2013, the rate increase with the November Board was going to be negative 2.7 percent.

And the primary reasons for the difference is once again the items which – unfortunately, this is in black and white, and therefore a little bit hard to see, but you'll see the 5.7 and the 1.0, and those two are actually the smart meter variance account and the DG variance account that would have been refunded.

So that's the reason you went from the negative 2.7 to the 4.9 in April.

MR. RUBENSTEIN: So there's still a difference, though. If you remove that – if you take those out, there's still a difference.

MS. FRANK: They're the largest factors, right.

MR. RUBENSTEIN: Yes.

MS. FRANK: So I've taken out 6.7 -- close.

MR. RUBENSTEIN: The difference, generally?

MS. FRANK: I don't have other factors.

MR. RUBENSTEIN: If I can also ask you to turn to -- and this was not in our -- not in our technical conference questions, but page 25 of that presentation.

And as I read this -- and I ask you if you can tell me if I'm wrong -- the allowed ROE, let's say for 2012, is 9.4, but your actual return is at 12.1? That's how I read it; is that correct?

MS. FRANK: Yes, that would be correct.

MR. RUBENSTEIN: And for 2013, the allowed ROE you estimated to be 9.2. We now know that that's lower than that. And you're projected to have an ROE of 12.7; is that correct?

MS. FRANK: That's correct.

MR. RUBENSTEIN: Okay. Moving on, if I can take you to SEC No. 6 --

MS. FRANK: Could I go back and indicate that one of these were GAAP returns, and the other are regulatory returns.

There is a basic difference between those two, and the basic difference is the -- I'd say they're accounting reasons to start with, so there are some accounting, tax-type matters.

But likely the largest one would have to do with the working capital and year-end working capital considerations that are in the financial statements that are different from the regulatory. The regulatory follows the working capital treatment that the Board has used in terms of how much, given all of your receivables and payables. So it’s a lead-lag basis, which is different than what your financial statements will have. So it's primarily working capital that drives the difference. But -- so the GAAP is in accounting.

MR. RUBENSTEIN: Do you know what your actual regulatory ROE is, then, for 2012 and projected for 2013?

MS. FRANK: We wouldn't do that calculation, because you always do the regulatory on the basis of a forecast and a plan, not after the fact. So I wouldn't have done that calculation.

MR. RUBENSTEIN: Can you do that calculation?

MS. FRANK: I know whenever I ask my accountants to do it, they always tell me the concept is flawed. I could ask again, but I'm not convinced I'll get -- I could attempt to do it. How's that?

MR. ROGERS: Why don't we take it under advisement? And we'll advise you. If it can be done in a responsible way, we'll do it, but if not, we'll tell you why not.

MR. RUBENSTEIN: Well, can you do it? And then if you want to explain why you don't think it's a good calculation and all that, you're fine to include that in the undertaking response.

MS. FRANK: I don't think I could go there -- like, this is something that we would have to use the audited financial statements to back into a regulatory return. And I'm not certain if I can do that or not.

I would agree that I can take to attempt to do it, but I can't promise that I can do it.

QUESTIONS BY MR. HARPER:

MR. HARPER: I'm sorry to interject, because this was a follow-up question I had on one of the responses you gave for one of my TCQ questions.

And it was VECC TCQ No. 3, and you provided an answer, and in part (d) of that answer, we'd asked you to provide Hydro One Networks Distribution's 2001 ROE on a deemed basis. This is using the Board's standard calculation for how it calculates actual ROEs, for purposes of, like, what you were talking about in terms of what are actual ROEs from a regulatory perspective, to test against -– you know, are you on an off-ramp or whatever else.

And you actually provided an answer in that response. I think the number was 9 -- I can't remember off the top of my head what number is, actually. And so I was trying to -- maybe it would help at this point in time rather than later on to understand how that response differs from what you were trying to characterize what Mr. Rubinstein is looking for, as to being an actual ROE calculated on a regulatory basis.

Because that was my understanding of, to a large extent, what that response to the technical conference question that VECC had posed was.

MS. FRANK: The 966 was just the allowed previous Board ROE. That's all that was.

MR. HARPER: So basically, you haven't -- maybe I'll get to that, then. So you haven't responded to my question, then?

MS. FRANK: I think at the same -- you're appropriate to have interrupted, because, Mr. Harper, it's the same issue that we have, that we're being asked by Schools now.

MS. GIRVAN: Sorry, Susan, doesn't it say in that response 10.5 percent?

MS. FRANK: I'm sorry, that's a different item. I think we are on number (d). 966.

MR. HARPER: Well, out of curiosity, because when you apply for an IRM, one of the Board's Triple-R filing requirements is for IRM years, you're supposed to file this calculation after the fact. So I guess I'm just curious as to how you're going to do that if you can't. Let's put it that way.

MS. FRANK: I think we should leave it stand, that I will look at this and attempt to do it.

MR. HARPER: I'm sorry, but like I said, it was exactly the same issue, is what I --

MS. FRANK: Yeah, no, I agree it was.

MR. HARPER: Thanks.

MS. FRANK: I'm happy to attempt to do it.

MR. THIESSEN: That's Undertaking TC No. 6.

UNDERTAKING NO. TC6: TO PROVIDE ACTUAL OR FORECASTED ACTUAL REGULATORY ROES FOR 2011, 2012 AND 2013.

MS. FRANK: And just to be clear, it is to -- we have had two different items here. I just want to make sure -- what is No. 6?

MR. RUBENSTEIN: I am confused too.

MR. HARPER: I think if you answer Mr. Rubenstein's, you will probably be getting at me too.

MS. FRANK: So it's to calculate for 2000 and -- what year, '12?

MR. RUBENSTEIN: Well, I'd like -- I'll expand it just slightly. Essentially, for 2011, 2013, provide the actual or forecasted actual ROEs.

MS. FRANK: Regulatory ROEs?

MR. RUBENSTEIN: Yes.

MS. FRANK: So the regulatory ROE for 2011, '12 and '13; is that?

MR. RUBENSTEIN: Yes.

MS. FRANK: Is that what you're asking?

MR. RUBENSTEIN: If I could take you to SEC 6:

> "Can you please confirm that the typical capital spending for the test year..."

Which would be 2013:

> "... has not previously been approved by the Board, has not been reviewed or defended and approved in any way?"

MS. FRANK: I would disagree, from the perspective that when the Board reviewed the 2010 and '11 capital spending, they reviewed the elements of the ongoing capital and determined that that level of spend was appropriate.

That review was intensive at the time. Actually, likely more intensive than the OM&A review at the time.

To say that it has not been reviewed, defended or approved in any way, my feeling is it was when we were getting our approval for 2010 and '11, and we were talking about a same level of spend.

MR. RUBENSTEIN: So your position would be the level has been reviewed, defended and approved, but not the actual proposed spending?

MS. FRANK: The level and the SD&O-type considerations, yes.

MR. RUBENSTEIN: SEC No. 9. This is referencing Staff Interrogatory No. 10, which is I2, schedule 109, Staff 10. And in that interrogatory, part (c), the Board asked you:

"Would the revised approach result in replacing poles which should not need to be replaced due to age and due to condition, and on the other side result in not replacing some which would be replaced due to poor condition?"

Your response says:

"No. Hydro One will continue to schedule replacements for all poles that have reached end-of-life, which takes into consideration both conditions and age demographics, as well as other factors like the likelihood and consequences of failure and the risks associated with the system reliability, safety and future costs."

Our question is: Can you provide the methodology used to balance these various factors?

MR. STEVENS: Yes. So we have statistics on the condition of poles. We do a cycle review of that. And as well, we have all the demographics, or age of poles. There is a high correlation between expected end-of-life and condition, so we use end-of-life to try to predict what the future replacement requirements will be. And when we actually come to in-year doing the work, we would actually prioritize based on condition.

MR. RUBENSTEIN: But how would you -- I mean, so you have a list, a priority list based on condition, and then -- but you are also prioritizing it with other factors. You talk about system reliability, safety, and future costs. How do you exactly go about doing that?

It's somewhat of a practical question. Someone has to make that sort of --

MR. STEVENS: Yes, no, so I mean, there's a number of things that come into play; impact on reliability, impact on cost are primary drivers.

We would look – you know, if we have a pole that does have very poor condition, and it just happens to supply a critical load, and there also happens to be a number of other poles in that area that are beyond end-of-life based on demographic or age type predictions, we would likely bundle that work and schedule it, because it’s the most effective way of doing it.

But we also have, as I’ve mentioned, the database of pole condition, where we actually go out and test the core strength of the pole, and we would generally prioritize based on that.

MR. RUBENSTEIN: Thank you very much. If I can take you next to SEC No 10. At least on the electronic copy that was sent to me, I don’t -- the response actually isn’t there.

MR. STEVENS: We don't have any internal documents, but I can try to give you an explanation, if you'd like.

MR. RUBENSTEIN: Please do.

MR. STEVENS: As I mentioned, we don't actually do those type of calculations. But by way of anecdotal information, I can provide you with some examples.

So this one is specific to poles. We know if we do a pole on a planned basis, if an outage is required, it takes roughly about four hours of outage time to do that. If it’s an unplanned outage, we would be looking upwards of about nine hours. So there is definitely a customer impact.

Also, a high proportion of pole replacements, on an unplanned basis -- a storm or otherwise occur, or can occur -- using overtime and those types of things, where planned work is actually done on regular time.

MR. RUBENSTEIN: And I have the same question on No. 11. The question is in the material, but there is no answer.

MR. STEVENS: Correct.

MR. RUBENSTEIN: I'm assuming there just is no internal documents.

MR. STEVENS: Correct.

MR. RUBENSTEIN: All right. I would take you to SEC 16. We ask,

> “Please confirm the applicant's capital expenditures as a percentage of depreciation in the average LDC CAPEX to depreciation in the same years, from the yearbook being as follows.”

There is a chart provided and then we ask,

"Please explain why the applicant needs additional funding when its capital spending as a percentage of depreciation is consistently less than the industry average."

MS. FRANK: Let me start by indicating that I accept the numbers from Hydro One as being consistent with my knowledge. I don't know about the yearbook numbers. They talk about it being an average. I couldn't find that calculation in the yearbook. I assume that it's something that was done by School Energy Coalition.

MR. RUBENSTEIN: I think so.

MS. FRANK: And then I don't know what basis you did it upon. Did you take the capital contributions that an LDC will often get from a developer when they are doing an expansion? Did you remove that from the capital?

MR. RUBENSTEIN: Well, I'm going to make an assumption, because I wasn't the person who did it.

But usually when we do this calculation, we simply take from the yearbook because there is, if you look at capital -- you can look at CAPEX and there is a depreciation, if you sort of do the division.

MS. FRANK: So it's hard for me to know what this number is. And the thing that occurs to me is that we could be looking at utilities that have a fair amount of growth, and that may have major investments in subdivisions that are funded by the subdivision.

I'm not convinced we're comparing like for like here.

I would assume that the reason the other utilities can manage this is because they are getting incremental revenue to fund this capital. If they weren't, then I don't know how they can manage.

MR. RUBENSTEIN: Thank you very much. If I can take you next to SEC 17, which you answered and you included the Form 2-K that we had requested, but there are only two entries into the form.

MR. STEVENS: What's the question?

MR. RUBENSTEIN: Why is it not filled out? I see 70 to 80 in the test year for non-union, and then management non-union 8.6 million. But you haven't actually filled out the rest of the form.

MR. STEVENS: I thought we answered that – sorry, I thought we answered that there were no incremental resources.

I'm sorry, I'm not that familiar with this table. But I believe the answer is that incremental resources are not required -- if I'm reading that correctly.

MR. RUBENSTEIN: I apologize. I received this stuff this morning, so I've been randomly trying to review the material.

If I can take you to SEC 18. This is in response to SEC interrogatory No. 17. We asked you to please provide the information requested with respect to the original establishment of the four stations per year and the six transformers per year standards.

MR. STEVENS: That would have been done based on the assessment of risk, demographics, condition at that time, very similar to what we do today.

MR. RUBENSTEIN: Do you have those -- I mean, I assume there was -- that is, those sort of standards have crystallized in some sort of report or business case that you’d originally made?

MR. STEVENS: Well, it comes to light in the actual investment plan that we put together, which underlies this.

MR. RUBENSTEIN: I'm talking about originally. In your answer, you talk -- it was approved in the EB-2009-0096 proceeding --

MR. STEVENS: I'm really having trouble hearing you, sir.

MR. RUBENSTEIN: I’m sorry, I apologize. I have a million books in front of me.

You talk about how these were approved in the 2009-0096 proceeding. I want to -- I'm trying to draw out the information which sort of set that standard originally back then.

MR. STEVENS: I wouldn't call it necessarily a standard. I would say that when we did the filing back in 2009, we would have looked at the risk associated with the demographic of the fleet at that point in time; age, condition, the same elements that we look at today. And we would have argued the case that 4 and 6 were the right numbers at that period of time.

MR. RUBENSTEIN: Can you put on the record in this proceeding the information, then, from that proceeding with respect to this issue?

MR. STEVENS: We could look for the references.

MR. THIESSEN: Undertaking TC7 -- with the microphone, TC7.

UNDERTAKING NO. TC7: TO PROVIDE FLEET RISK INFORMATION FROM EB-2009-0096.

MR. RUBENSTEIN: SEC No. 27, would this be best -- I have a sort of a follow-up. Would that be best for this panel or the rates panel?

MS. FRANK: This would be better for this panel.

MR. RUBENSTEIN: Okay. If I can take you, then -- you did provide a response to that. And in your response, you say:

"Hydro One does not have available specific depreciation and CCA calculations for every contemplated project adding up to $414 million of in-service capital. Similar projects, especially the smaller ones, are grouped into categories and averages are used to estimate the resulting depreciation and CCA."

I'm trying to find out what information you do have, what information from that question can be provided. I understand from that some very small things you don't have project-specific information, but I would assume you do or -- it could be made available with respect to the more major projects.

MS. FRANK: If we turn to, in the prefiled evidence, Exhibit B, tab 1, schedule 2, and if we look at page 5 --

MR. RUBENSTEIN: Sorry, D1?

MS. FRANK: B1, 2.

MR. RUBENSTEIN: Fine.

MS. FRANK: And you'll -- sorry, are you there yet?

MR. RUBENSTEIN: I'm at B1, yes.

MS. FRANK: Two, page 5.

MR. ROGERS: B1.

MR. RUBENSTEIN: Okay. I've got it.

MS. FRANK: You'll notice we've got projects' costs at the top, and you see several of the escalated-type projects and the CIS system. And then you'll notice that the typical is grouped together. And what we've got is the depreciation rates for each of these items listed in here.

And that's typically how we do our planning. We do our planning using rates for categories. If we have a project to look at, we might be more specific, but in other cases -- and you notice on the CIS it's 10.5, because it truly is a short-life asset compared to some of the other ones like our -- the Commerce Way station, which is only 2 percent, right?

But in terms of the ongoing work, the 3.5 is the kind of depreciation number that we would use when we do planning. We don't come up with a plan with depreciation specific to each project in the full plan.

When it actually goes in service, then we would apply a more specific -- with a -- based upon your actual financial results, but a plan is done at this level.

MR. RUBENSTEIN: I understand that, but let's talk

about escalating issues capital, as an example.
You couldn't break that out? I understand that you generally don't do it, but could that be broken out to, say, the major projects that fall under that?
MS. FRANK: You do have the escalated capital broken down to the Commerce Way, the stations, and the wood poles. And...
MR. RUBENSTEIN: Distribution and regulating stations, 42.93 in in-service additions.
MS. FRANK: I'm not convinced there would be any difference in life between regulated and distribution, actually.
MR. STEVENS: I would agree.
MR. RUBENSTEIN: Okay. Thank you. Those are all my questions.
MR. MILLAR: Thanks. Bill, are you ready to go?
MR. HARPER: Yes, I am.
Dr. HIGGIN: Can I just...
MR. HARPER: Sure.
QUESTIONS BY DR. HIGGIN:
DR. HIGGIN: Thank you. This is a follow-up to the discussion we had about EP TCQ No. 5, and the information that then you referred me to with regard to VECC 5. And then I also was referred partially to VECC 8.
So what -- I would still like an answer to part (a) of this TCQ. And I've discussed this with my colleagues and we don't -- we think this is important information. And basically a schedule similar to that that was provided by

the -- transmission in request from Schools is what we would like to see.

It's up to you, knowing your data, how to do that most expeditiously; but what we're interested in is not -- just as you referred to me, is these categories of capital. You referred me specifically only to the incremental capital, which is attached to VECC 5.

So we would like a complete understanding of the forecast ISAs, and either by these categories or, if you wish, to take it by a different category because your data is more available -- such as lines, transformers and so on -- we're fine. It's just that we need to know what your forecast of the in-service additions is.

And then could you reconcile this to VECC 5 and to VECC 8 in terms of the 414, which is the in-service forecast for 2013 and also the capital.

So that would be the request. It's just as laid out here, but we're flexible in terms of how you may wish to address how to do this.

MS. FRANK: It appears that we have been looking at this issue, and believe we could answer this question for you. So why don't we take an undertaking to provide it?

DR. HIGGIN: Can you just tell me, for my information, whether it will be these categories you would use, or would it be lines, transmission or other -- transformers?

MS. FRANK: I'm going to have to go back and look.

DR. HIGGIN: Okay. We'll leave it with you, and we would like an answer, though, showing the in-service dates for these.

MS. FRANK: You're looking for the full 414?

DR. HIGGIN: Yes.

MR. THIESSEN: TC8.

UNDERTAKING NO. TC8: TO PROVIDE FORECAST FOR IN-SERVICE ADDITIONS BY CATEGORY, SUCH AS LINES OR TRANSFORMERS, AND RECONCILE THIS WITH VECC QUESTIONS 5 AND 8 IN TERMS OF 414, FORECAST FOR 2013, AND ALSO WITH CAPITAL

MR. MILLAR: Bill, we'll turn it over to you.

We'll probably look to take a break. I don't know, 12:30, 12:40, something like that. So if you can -- you may not be done then, but if you can –

QUESTIONS BY MR. HARPER:

MR. HARPER: Throw a paper clip at me if I refuse to stop and we don't get done by then. That's fine.

I would like to turn first to -- just going through the list, you've answered several of the questions, and I’d like to focus just on the ones that you haven't provided a written response to, and a bit of follow-up on some of the ones that you have.

So the first one I would like to turn to is VECC Technical Conference Question No. 2. I think Mr. Rubenstein was talking briefly about this, and I think in response to this you stated, and specifically stated that your application is consistent with the spirit and intent of the approach the Board provided in its July 2008 report.

Now I know you had some conversations about spirit and intent on a more generic basis. But the question in your response was dealing specifically with the 2008 Board report.

I guess I was just looking for confirmation that your application does not include application of the 20 percent threshold that the Board's ICM model includes in its calculation of what is eligible and not eligible for recovery under the ICM model, does it?

MS. FRANK: That’s correct.

MR. HARPER: I think that’s -- as I note here, that’s a point that I think you explicitly brought forward to your, one of one of your board sub-committees, in terms of this was a point of departure between us and what the Board's requirements, as laid out in its report, are.

MS. FRANK: What we brought to our board's attention is that if you follow, I'm going to say, the very strict letter of the approach, the calculation of threshold -- which we did, calculate following the very strict letter of the approach -- it is then used to determine the incremental amount. And we've said we believe, because we were on the spirit and intent, that if you do that you're not funding all the capital investments that need to be funded.

So we said to our Board that using it as a trigger rather than as an amount which would be not included for incremental recovery, would take some broadening of the interpretation of what the Board does.

So we were telling them that if you strictly applied, that you have to use the threshold.

MR. HARPER: Okay, fine. I think that's really what I was looking for.

Actually, I'd like to turn to – I think we've done 3 and 4. I'd like to now turn to the one that you were just talking with Dr. Higgin about, which was VECC Technical Conference No. 5. Actually, I have two issues on this.

One is -- I have questions on the response you provided and questions on the fact that I don't think you answered -- your provision didn't actually answer the question I'd asked.

So maybe you can go first to the answer that you provided to that response? You'll have to bear with me a minute as I try to find it myself here.

What I was – what struck me a bit with was – just trying to understand the response you gave to Dr. Higgin earlier was your characterization how you define incremental typical capital projects.

Maybe if I can step back a bit, I understand in the application there was typical capital spending, escalated capital spending, and then non-typical capital spending, i.e. the CES program.

And then my understanding is we took the typical capital spending, and it was characterized – maybe à la what we were just talking about, the portion of that that was funded versus unfunded by depreciation, if I can put it that way.

Is that the fair characterization of sort of the buckets the dollars went into when we are looking at the application overall?

MS. FRANK: Yes, it is.

MR. HARPER: I was trying to understand how that fit within the characterization in this response of incremental capital projects, because funded/unfunded was just dollars, ones that fell above or below the line.

So I was understanding -- maybe if you could give me just a clear explanation as to what in this response you were characterizing, and how you define incremental capital projects.

MS. FRANK: Your original description of the buckets and the nature of being unfunded is exactly what our premise is for this filing. And then when we looked at – and we also feel that we shouldn't have to defend typical like – I feel like this is the third time I’m saying this, so likely it can be the last --

MR. ROGERS: For now.

MS. FRANK: For now. The typical capital spend, we really believed, was reviewed and examined back in 2010-11, because the level of spend was considered. And it was only when we were getting to the technical conference questions that we said, as much as we believed that, it's not what parties seemed to want to look at.

They wanted to look at what are the projects; let us understand the nature of the work. So what we've done is to go through and look at the projects, and this is a list of the projects that we intend to do in 2013, which I would have characterized as typical work.

Now there are projects at different locations or -- and we looked through them; you can see the categories -- and we just picked up the projects and said so what are the projects, and let's give the information that describes the projects and maybe that will be helpful.

MR. HARPER: Well, actually, maybe it was the word incremental typical – it was the addition of the word incremental that was throwing me off here.

So is it fair to say that the listing you've given here are the projects that are included in the typical capital spend that meet a certain spending threshold? Is that -- have I got it right in that way?

MS. FRANK: And which are unfunded would be my characterization.

MR. HARPER: So how did you define – because unfunded is just a matter of what’s over – I mean, unfunded is a matter of dollars that are greater than depreciation, but up to your level of typical spending dollars.

So how would you decide? I mean, you had to take an individual project and decide is that above -- is that above the line which means it’s unfunded, or like put that project below the line which means it is funded.

How did you -- and this is what I'm characterizing as what’s unique about these. How did you decide that this listing of projects were the ones that were unfunded, as opposed to another list on another page somewhere were the ones that were funded, if I can put it that way?

MS. FRANK: And I'd say our basic, simplistic approach would have been we'll provide the projects, the programs we'll treat as ongoing and funded. Very simplistic.

MR. HARPER: Okay, so this was the ones that were, say, less of an ongoing nature, if I can put it that way? And that will be the characterization that would put them in the incremental typical bucket?

MS. FRANK: I'd be fine with that characterization.

MR. HARPER: I'm not sure that gets me -- I'm trying to understand the different terminology we're using here, and that may be sufficient for what I'm doing here.

Now to the question I actually did ask in the technical conference, which was dealing with -- in response to Staff No. 2, you stated that a significant item in typical capital spending is funding for system capability reinforcement. And these questions were then focussing on -- and so I took that that a significant amount of your typical capital spending was system reinforcement.

And so the first part of our question was just asking what portion of your historical typical capital spending was for system capability reinforcement.

I guess I didn't see a response to that answer in this massive list of projects that you gave us here.

MR. STEVENS: We'll look to provide that, Bill, as a result of that last undertaking.

MR. HARPER: Okay. And then if we go through this, I was – maybe you can just look at the balance, because the balance of the other two subsequent questions just deal specifically with sort of the characterization of system capability reinforcement, in terms of it was triggered by load growth and whether or not, you know, how -- if it is triggered by load growth, how that's taken into account in your ICM calculation and also, you know, the fact that your description in the previous hearing talked about how system capability investment wasn't steady, and how that reconciles with the fact that typical capital spending is being characterized as what’s steady, ongoing requirements.

So maybe if you want to, you can either address those two points now or roll them in as part of the undertaking. I'm indifferent as to which way you want to handle it.

MR. STEVENS: Do you want us to try to take a crack at (b) first?

MR. HARPER: If you want to take a crack at (b) first, that sounds fine by me.

MR. STEVENS: System capability and reinforcement is when we do an area study, right. Sometimes it's triggered by power quality issues. Sometimes it’s just us looking ahead and saying, you know, over a period of time since we built this asset, customers have been added and it's now at the point where we actually need to look at various solutions to address current capability in the system to meet that load.

So it’s a lot of historical load built up over time, and we would look at things -- if you look at some of the projects, you know, we can allocate load from one feeder to another. In some cases, we have to actually put in a new asset. So we look at all those types of things.

MR. HARPER: So it's more historical load growth than future load growth as what’s triggering the system capability reinforcement?

MR. STEVENS: In a lot of cases, that’s right.

MR. HARPER: Can you take a crack at (c) as well, or is that a --

MR. STEVENS: I guess the answer is it's not steady, if you look at any given area of the province. These tend to be more lumpy type project investments. But over time, if you assume kind of an ongoing level of growth and meeting that growth, system-wide they're probably fairly steady.

And we'll provide that information again -- I think it was undertaking -- was it 17? I can't remember what the number was. It was your friend Dr. Higgin’s undertaking. So you'll see numbers associated with that there.

MR. HARPER: And maybe we can just cover off one more and then take the break, if that's when people want to do it.

VECC Technical Conference Question No. 6 was referring, again, to Staff IR No. 2, and in response to 2(b)(i), you made the comment that:

> "As more asset condition information has become available, it's apparent that the level of deterioration is such that the system can no longer be sustained in its current spending levels."

I guess I was looking specifically for what was the additional -- since the last filing, what was the additional asset condition information that you have received for, and I said specifically, wood poles, distribution station restoration, and your more sort of transformer programs.

What was the specific asset condition information in each of those three cases that led you to say: Gee whiz, we have to spend more now?

MR. STEVENS: So we are taking a longer-term view. We've recognized, looking at when assets were put in service and given our assessment of what end-of-life might look like in terms of number of years; poles 62, stations 50, pick those numbers as an example.

When we start looking out 10, 20, 30 years, we realize that there is a significant amount of work heading our way, and that was relatively new information.

And what we're attempting to do here is start to get a jump on that work, because it's not going away, and trying to smooth that over time, as opposed to defer it and ramp it up just didn't seem to make sense for a number of reasons, rates being one, but also our ability to resource.

MR. HARPER: So it would be fair to say it wasn't a matter that you went out and found that the existing poles were in a lot worse condition than you thought they were; it was a matter more of looking forward in terms of what does the existing condition mean and the age profile and all that, in terms of what I'm going to have to do over the next say 10 years, and what's the profile of that work look like? That was maybe the new information that was brought forward to your planning, and then trying to incorporate that sort of longer-term view of: What am I going to have to do, and what does that mean for what I should be doing today?

Is that a fair characterization?

MR. STEVENS: That's fair.

MR. HARPER: Okay, fine. That probably answers most of those multiple-point, multiple questions that I have.

If that same sort of perspective applies for each of those specific types of assets where you're looking for escalated capital spending, if that's a fair characterization of each of them, then I think you've adequately addressed this question. If that’s fair.

MR. STEVENS: I think that's fair, Bill. We've had our "oh, my God" moment. We've said we better get to it. And there is other information in here about resource availability, in terms of using those resources while addressing definitely a need that's right on our doorstep.

We thought it prudent to take this approach.

MR. HARPER: I don't know if you wanted to take a break now.

MR. MILLAR: If this is a convenient spot, why don't we do that? We'll come back in one hour.

Don, did you have something?

MR. ROGERS: That's fine. If I could just ask Bill how much longer you think you’ll be. Just roughly, just give me an idea.

MR. HARPER: Maybe 45 minutes, I think.

MR. ROGERS: Everybody else is done, I think, with this panel?

MR. MILLAR: Staff still has questions.

MR. ROGERS: How long would you think?

MR. MILLAR: Up to 30 minutes.

MR. ROGERS: I'm thinking of the next panel. That's fine.

--- Luncheon recess taken at 12:29 p.m.

--- On resuming at 1:30 p.m.

MR. MILLAR: Why don't we go back on the record, and we'll be back to you, Mr. Harper.

MR. HARPER: I think actually, in looking through the list, the next one that wasn't answered was VECC Technical Conference Question No. 11, which I think was referring back to your -- was referring back to the original question I posed in VECC 7; that was Exhibit I, tab 2, schedule 5.04, which was your response to VECC 7.

I think to some extent you probably addressed this question already. This was asking, to some extent, why typical capital spending that doesn't require further detailed review -- and I think we've had a discussion around that today already. So I think that's probably sufficient for that.

What I was struggling with in the second part a little bit was whether – I guess, was whether or not that's really only applicable if the typical spending in the past included programs that maybe are over and done with and, as a result, you really wouldn’t -- you would expect something to come off the table.

Typical capital spending is really only a good euphemism for something that actually has to be done every year on an ongoing basis, as opposed to capital spending that was approved in the past, but probably was only applicable to, say, the test year, or one or two years that the Board was looking at. Is that a fair characterization?

MS. FRANK: Yes, I think it is, and I was actually trying to go back to the IR that you referred to, which was 7, right?

MR. HARPER: Right.

MS. FRANK: And then if I looked at your next IR that you had – 8, right?

MR. HARPER: Well, actually, I was looking at 7(b) actually, when I was hearing the conversation here. That is what I was focussing on right now, was just a – like I said, I think we’ve talked about VECC 7(a). I think we’ve had some discussion around that already this morning, and I was trying to – and I think I was trying to put part (b) to you, because when I looked at the response to those Staff IRs, they didn't get at the specific issue.

And I just – it seems to me typical capital spending is a good idea, if it is really typical and it’s going on every year, as opposed to something where the Board approved in a past test year. But it was really -- maybe Cornerstone is a good example of that. That was something that was approved for the test year, but it was over -- I know you've taken that out, but that's the sort of thing you wouldn't view as typical capital spending if you’re trying to come up and translate history into the future and say what’s a typical capital spend in the future, given what the Board has approved in the past. Is that a fair--?

MS. FRANK: That's fair, and what I was going to try to do was to take you to the response to VECC 8, the IR VECC 8.

If you look at the typical capital spend there, and you’ll notice that what we’ve done is – here’s the total capital spend, and we’ve done exactly what you're suggesting, and we’ve taken out things that aren't of an ongoing nature.

So the smart meter piece was taken out because that program is over, right? We’ve got those smart meters in, and the same thing with some of the DG work. And as you had indicated, the CIS work. So we've done exactly that.

When we’re talking about typical capital spend, it’s a not just the amount that the Board would have looked at, but it’s the piece after having removed the projects that end.

MR. HARPER: And I guess your view would be there is nothing else in that typical capital spending number at the bottom that would be stuff that might be the one of, or unique to the particular test year. All that remaining stuff is stuff that’s required on an -- the types of programs that you would do on an ongoing basis?

MS. FRANK: Right. Now, it may be a station at a different location.

MR. HARPER: No, I appreciate that.

MS. FRANK: But it would still be a station.

MR. HARPER: It would still be a station refurbishment or – obviously, it’s a different pole one year to another, but it would still be a pole replacement sort of thing.

MS. FRANK: Right.

MR. HARPER: Okay, no, that’s fine. I just want to clarify that.

If I can go to my TCQ No. 12, which I guess was referring to VECC 11, which is back to the original response to VECC 11(b).

Here there were a couple of pieces I was wanting to look at. If you go to the second page of that, and you go to – I guess it’s about the third paragraph down on the second page, the paragraph that starts, “In this proceeding, Hydro One has applied for recovery of”.

MS. FRANK: Right.

MR. HARPER: And the latter part of that paragraph talks about,

> “failure to make the investments in 2012 will degrade reliability, and will have the consequence of reducing the ability to perform this necessary work in a planned fashion, and ultimately result in less stable rates, reduced reliability, and a more expensive system for customers.”

And I guess what I was – I was trying to follow through, because I followed through the logic on that, and it seemed to me one was suggesting that if that was the ultimate result, what you were suggesting was that those three factors -- less stable rates, reduced reliability, and a more expensive system for customers -- were basically the grounds for determining that a capital – you were suggesting were proper grounds for determining that a capital projection should be deemed as non-discretionary, if that was the result you were trying to avoid.

And I was wondering – therefore I was wondering is that – am I interpreting what you're saying there correctly, in that less stable rates is a rationale for making – for deeming an expenditure to be non-discretionary if it will lead to less stable – if doing so will lead to more stable rates, let's put it that way.

MS. FRANK: I would not have thought you'd apply these in isolation, but as an integrated set. And I would almost say would a prudent asset manager believe that this investment should be made at this point in time.

So that goes to the reliability being a piece as well, and the cost effectiveness piece, and then certainly the impact on the customer has to be. So I would rather bundle them, rather than say any one of them would make it non-discretionary.

So by itself, having an impact upon rates that wasn't smooth, that by itself I wouldn't think would make something non-discretionary.

MR. HARPER: Okay. I don't want to parse the words, too, but do you not see there could well be a distinction between what a prudent asset manager might propose to do, all things considered, costs and timing, and what could truly be considered non-discretionary? Or do you see those two being precisely the same?

MS. FRANK: I'm struggling with what the difference is.

MR. HARPER: Well, you've answered my question then. That's really all I was -- okay.

If we go to VECC Technical Conference Question 13, and I guess -- I'm sorry, it's not 13. I apologize – yes, Technical Conference No. 13, which is referring to referring to VECC Interrogatory No. 18.

Sorry, I’m starting to get confused between technical conference questions and interrogatory questions here. Here we were trying -- to be quite honest, in asking the question you talked about doing a -- undertaking a large number of stations -- twelve in 2012 and thirty-two in 2013 -- and you talked about how the health and the asset condition of these was important.

What we were asking for in the question was just trying to get some sense of, you know, sort of tell us what the health index was of what may be seventy, or fifty, or something bigger than forty-five of the worst ones was, and then tell us what the health indexes were of the ones you were doing, just so we can get some sense that, yes, it looks like the ones they’re doing are the worst ones, and there is a rationale for it.

And I didn't see sort of anything that looked like an answer to my question, and I was just wanting to follow-up and see is that something you could do, you don't have, or I guess was there a problem with responding to the question as posed?

MR. STEVENS: I’ll answer that one. It's something we will be able to do. In fact our asset analytics tool is designed around health index, which pulls together a number of evaluation criteria -- a couple that you’ve mentioned: demographics, condition, performance, utilization, environmental, customer, those types of things.

That system will be in place -- I'm thinking March of next year, I think it’s Q1 of next year. So we can't give the population of 1000 in a ranked view right now.

Demographics condition, we have a handle on that and that's the – we’ve given a list of thirty-two, based on what information we currently have under the manual approach that we use.

MR. HARPER: So the manual approach, if I understood it, was focussing mainly on -- I don’t want to put words in your mouth, but I think you talked once about looking at age as being one, you know, and then looking at condition -- I think we talked about poles at the time actually, so I don’t know if the same applies to stations.

But you looked at using specifically age and then, as you got closer or were doing specific planning, looking more at the actual condition of individual poles.

Is that similar here? Your ranking, to a large extent, is based on age of stations, at least going into this at this point in time? And sort of if the forty-five -- or probably the forty-five of the oldest transformer type stations, of the old stations and related transformers?

MR. STEVENS: The answer is consistent with what I gave in poles. We use the age to say what does the work look like over the next ten, twenty, thirty years. And then, when we actually plan it out, we very much rely on condition, because we do a lot more condition-type assessment for stations than even we do for poles, because of the system impacts.

MR. HARPER: If you don't have health indexes, you must then be doing some sort of condition metric, if I can put it that way, in order to be able to pick out what you think are the 45 ones that have to be done for the -- even if you haven't completed all of your analytics, which pulls together a whole bunch of different factors or metrics, you must have something that sort of says: I have looked at this metric, and these 45 stations are the ones that require the most immediate attention, whatever that metric is. And is that something that you've ranked your stations by, using that metric?

MR. STEVENS: Based on what we know today, we could give a list broader than the 32. I wouldn't say we would be able to do all --

MR. HARPER: No, and that's why I -- I picked 70 just because it was a number bigger than 45, to be quite honest with you. There was no magic to it.

MR. STEVENS: Sure. The only point I'd make is because we continue to do ongoing assessment, information that we present now may not be the same information that gets presented in a future --

MR. HARPER: I appreciate when you get this analytics tool and you're bringing together a whole bunch more factors, it may change relative rankings of stations.

MR. STEVENS: Or just the condition of a station can change in a year, is the other thing that could -- that's why we said we would bring that information to the next hearing.

MR. HARPER: I was just trying to get an idea here what types of metrics you were using, to get some sense that there was some grounding to this particular selection, if that's something you could perhaps pursue a little bit and give us more detail on that. It would be useful.

MR. STEVENS: The type of metrics would be gas analysis, going and looking at the station. Is it rusting? Is the wood in good condition, if it's wood structures. All those things basically come together into a program, or project.

MR. HARPER: They must come together into a ranking of that station, which then comes together into a program; would that be a fair...

MR. STEVENS: Yeah.

MR. HARPER: But you then must have a ranking of the stations, before you decide which ones I'm going to pick for the program?

MR. STEVENS: For example, the next 32.

MR. HARPER: Yeah. So is that something we could get a sense of, of what sort of -- because that's what I was looking for here, was some sense of: Okay, the stations you've used, you've judged them on some basis and on some basis they've been judged as being more wanting than other stations on your system, and whether there's some way of looking at the metrics that you used to get an sound understanding of the metrics you used to judge those and that shows that these are the ones that are most wanting.

MR. STEVENS: You want us to make an attempt at going beyond the 32 right now, as opposed to at the next hearing we have?

MR. HARPER: It's more a matter of saying: These 32 look worse than all the other ones.

MR. STEVENS: Yes.

MR. HARPER: If that's something you could do, I think that would be useful.

MR. STEVENS: How we establish the 32 and based on what metrics?

MR. HARPER: Yes.

MR. MILLAR: That will be TC9.

UNDERTAKING NO. TC9: TO EXPLAIN HOW THE 32 PROJECTS WERE ESTABLISHED AND ON WHAT METRICS.

MR. STEVENS: Basis and metrics of how we chose the 32?

MR. HARPER: Yes.

And if I go to VECC Technical Conference 16, I think this was the next one that wasn't answered. And it was referring to VECC IR No. 26, which is Exhibit I, tab 2, schedule 5.23.

I guess this is -- we're talking about replacement of wood poles, and I think we talked a little bit earlier about having to start the program because we have to ramp up the replacement because of what we're seeing in the future.

And I was looking for something that would demonstrate to me that if we were to delay this ramp-up by one or two years, that would make the whole thing unmanageable or unacceptable in the future. We get this general thing -- I appreciate it's now versus later, but it's a question of -- what made your decision that doing it this year or next year was absolutely critical, and if we didn't do it, it was going to be unmanageable if I didn't start until -- I'm not too sure when the next cost of service hearing is -- 2014, 2015, whenever it is?

That's what I was looking for and didn't get a sense of, and if there is something more you can provide us on that, that's what I was looking for here.

MR. STEVENS: Sure. Some of it we tried to establish in the evidence, looking at the current backlog of what we considered near end-of-life-type poles, right? And there's roughly, I think, 170,000 of those. We have a population total of about 1.7 million.

As we start to look out over the next 10 years, if that represents about 10 percent of our poles, we believe will be at about 30 percent of our poles, hitting that end-of-service-life-type metric.

You do the math, it's 510,000 poles that needs to be done over the next 10 years.

Other places in our evidence, we mention that some work programs are ramping down with very similar skill set. We hung roughly about 35,000 repeaters on poles for the smart meter program. It's a lineman and a bucket truck.

So it makes a lot of sense to us as that work ramps down, that we really get going on this pole replacement program as soon as possible. So that's why we've decided to put that escalation into the escalated capital.

MR. HARPER: So it's a combination of the need with the capability that you now see yourself having?

MR. STEVENS: Yes. There's a lot of evidence in there about the red pine poles driving the need. There's a lot of evidence about poles at end-of-life or approaching end-of-life, therefore a risk to reliability.

Those types of things, coupled with our ability to do the work.

MR. HARPER: Fine. Thanks.

If I go through, I think the next one that I think was -- that I was looking at was VECC Technical Conference Question No. 20. And that's looking at the response to Energy Probe -- actually, and I'm not sure, because this is more general in terms of -- this is having to do with the use or non-use of the half-year rule in the ICM in the year you're actually applying for the ICM. And if I understand it, you're basically doing what the Board said in its report, was use the full-year depreciation when you're calculating the revenue requirement associated with the ICM, as opposed to the half-year rule, if I'm not mistaken; is that correct?

MS. FRANK: That's correct for everything except --

MR. HARPER: Except the CIS system?

MS. FRANK: -- CIS, yes.

MR. HARPER: In a general sense -- okay.

And I think you'd agree the only exception the Board made to that was if you were in the last year of an ICM period and you were going to be going to cost of service the next year, then it was appropriate to apply the half-year rule in those circumstances.

Do you agree that that's the practice the Board has applied?

MS. FRANK: I would agree that that is what it is. That's, once again, a strict interpretation.

MR. HARPER: I guess what I was struggling with, and it follows up on the conversation you had with a couple of my colleagues earlier in terms of we're a little bit uncertain right now as to whether the next year is going to be an ICM year or a cost of service year.

And I appreciate that with the uncertainty about the renewed regulatory framework and how it might fit that, that's where we are right now.

But I guess what I was posing here was: If we were to go forward with a sort of process that applied the full-year rule, and then it turned out that for some reason Hydro One decided in 2014 that was going to be a cost-of-service-type application and that's what it was going to look like, would you see it being reasonable to have some mechanism or adjustment to say: Well, gee whiz, we're going to have to account for the fact that we really shouldn't have used that full-year rule the year before, and have some sort of adjustment -- adjustment, true-up or something like -- if you understand the principle of what I'm talking about, you know.

You can agree with something on principle and then figure out how to make it work, but I was wondering whether you see some merit to that principle if Hydro One was to come forward with a cost of service-type application for 2014, at the end of the day?

MS. FRANK: I've given that some thought, and my feeling is that in our circumstance that it's appropriate for it to be full-year.

And our circumstance is that we didn't come in in 2012. So when we talk about: Have you over-calculated what should be in your rate base, I'd say we would have, like we heard from other parties -- we missed that second half of 2011, we missed all of 2012, and now we're asking for all of 2014.

So I end up thinking, well, if I was to say: Wes, we should have a variance account, then I'd tend to say -- or some other mechanism, I'd tend to say: Why don't we go back and look what we missed, as well?

And I figure no, no, no, that's unreasonable. We didn't bring it forward. We don't have an application in front of you. I can't go back and ask for something I didn't bring forward previously.

So the fact that my rate base has gone higher with no recovery, to me, I can't go ask for that, but I can say: Give us 100 percent of what we're bringing before you now. I don't think we're over-collecting when we do that, because of the pieces that we under-collected in the past.

MR. HARPER: Just to be clear, the fact there was no adjustment in rates in 2012, that was a result of you making no application?

MS. FRANK: Yes, there was.

MR. HARPER: Okay. Thank you.

I think the next one I had was VECC Technical Conference Question No. 21, but in reading this, I think it's one that probably best gets bumped to the next panel. It's dealing with the way you design the rates to recover the dollars.

Am I correct in that?

MS. FRANK: I think you're correct.

MR. HARPER: All right. I'll leave that for the next panel, then.

And I think that's all my questions for this panel now. Thank you very much.

MR. MILLAR: I think just leaves Staff for this panel.

Mr. Zwarenstein will start, and I think Ms. O'Connell has some questions as well. I'll summon her.

QUESTIONS BY MR. ZWARENSTEIN:

MR. ZWARENSTEIN: Could you point to any precedent application where an applicant had requested an additional revenue requirement for the purpose of truing-up the different between CAPEX and depreciation in a particular year?

MS. FRANK: Maybe help me understand your question. There have been applications where they have asked for additional capital, which would result in additional depreciation; there have been several of those. Is that what you're asking me?

MR. ZWARENSTEIN: No. You have identified on page 3 of 9, Exhibit B1, schedule 1, page 3 of 9, that there is a requirement to recover typical capital spending in excess of approved depreciation.

So that's not for a specific project. This is really an attempt in this year to true up the amount of revenue, the depreciation amount with the expenditure in that year.

MS. FRANK: I think we've talked about this before. We have treated the threshold calculation as a trigger, not as a level that determines what is incremental. And we have used depreciation as that level. I'm not aware that others have done that.

MR. ZWARENSTEIN: Thank you. On page 6 of that same exhibit, you refer to Moody's and Standard and Poor's evaluations.

I wonder if you could point to any reference to the expectation that the revenue is deficient -- the revenue is deficient, because depreciation does not equal expenditure.

Are you implying in this that there is an expectation that the depreciation amount should equate to the capital expenditure in that year?

I couldn't find anything in the Moody’s or Standard and Poor’s that suggested that that was a concern of investors.

MS. FRANK: The conversation that we had this morning that -- with Schools, on was there anybody in the investment community that had expressed this concern, I brought the attention to the Scotiabank investment advice, and we have taken an undertaking to file that.

I believe that's the clearest and crisp place to look to it. So that's where I would encourage you to look.

MR. ZWARENSTEIN: Thank you. On page 4 of that exhibit, we show $414 million typical capital spending, and then there is an amount there of $142 million. And this morning we received the VECC 5 response with a list of incremental capital projects -- that was VECC 5, page 2 of 4 -- showing a total of 132.6 million.

Is that 132.6 million the bulk of the 142 that you're showing there?

MS. FRANK: If you look at table 1 in the exhibit you referred to on page 4, you will notice that we have added in an item on line 4 that we refer to as the amount that is no longer funded, of what the Board previously approved in terms of rate base, of $11 million.

So what we've done is the 132 would be the capital piece that goes beyond depreciation, and we added the 11 that's associated with the unfunded. So that's what we've done here.

MR. ZWARENSTEIN: Does that represent these projects which you've listed?

MS. FRANK: Yes.

MR. ZWARENSTEIN: So if I were to ask for the list of the projects for the capital spending amount of 414 million, would these same projects appear in that list?

MS. FRANK: Yes, they would.

MR. ZWARENSTEIN: They would, okay. So in essence, there isn’t any actual capital expenditure that goes to projects or -- well, that goes to projects other than what is covered under the 414 already?

MS. FRANK: Well, there is also the escalated capital and the CIS capital. But of the typical capital, yes, it's the -- in total, it's the 414 and the increment is the 132 that we described in Technical Conference Question VECC 5, and the missing 11 because of the change in load.

MR. ZWARENSTEIN: In your -- so this is in my Technical Question 7, I guess.

At line 28 of Exhibit 1, tab 2, schedule 1.07, Staff 8, you explain why depreciation should be included in an assessment of whether or not the threshold is exceeded. Depreciation of 283 million was included, but ICM 213 calls for in-servicing of 414. Therefore, upon completion of the planned spending, rate base will grow by 131 million.

Please explain why the depreciation for the in-serviced asset, along with the capital value of the asset being placed in service, doesn't over-value the assets being placed in service in 2013.

MS. FRANK: I struggle with your premise. I mean, try to -- we're just asking for the capital value of what we are spending and putting in service adding to rate base. When you add something to rate base, then you have to have all the carrying costs, including depreciation added to revenue requirement.

I don't see any over-valuation that's happening here. I'm struggling.

MR. ZWARENSTEIN: Okay, I'll go on then. My further question, part (b): Should the depreciation not be covered in the subsequent years; that is to say that the depreciation for the asset that goes in service in that year should not really be a basis for collecting revenue on that depreciation.

MS. FRANK: When an asset goes in service, even in the first year it's depreciated.

MR. ZWARENSTEIN: And continually.

MS. FRANK: And continually for all the following years. So even in the first year when you put the asset in, you have to consider the depreciation.

MR. ZWARENSTEIN: If I go to the example that Hydro One provided -- I'm referring here to my question (d), in the analogy quoted by Hydro One in the response on page 3.

Hydro One provided an example of a $400 asset depreciated on a straight line accounting basis, and compared this with the replacement cost of the asset, which is escalated to $880 on a compound basis. And you show that they're not the equivalent amount.

The implication of this is that perhaps – or am I correct in assuming that the implication of this is that Hydro One might, in that situation, prefer to have requested a capital expenditure of $880 at the time of the asset, rather than the $400?

MS. FRANK: You would only ask for recovery of the costs associated with the asset you're putting in service. So in the example which -- we said in the 70s, you put an asset in -- you would only put into rate base, and therefore have the depreciation associated with what's on rate base, what you actually built and put in service and the cost associated with that. You wouldn't forecast what the replacement value was going to be 40, 50 years down the road, and say: Well, I'm going to need to put, 40, 50 years down the road, a replacement in at a much higher cost, and give me all the carrying costs for something I'm going to spend 40, 50 years from now. That would be -- I'm certain that many of the intervenors would have a very difficult time if we thought we needed customers to pay for that. You only pay for what you put in service.

MR. ZWARENSTEIN: So the addition of the $142 million as a growth in rate base for typical capital, that would bring you up to the full capital expenditure in that year?

That's the intention of it, right?

MS. FRANK: The intention is that the revenue would support the change in rate base. And you're correct that we would need to add the 142 to have the sufficient revenue to cover the growth in rate base.

MR. ZWARENSTEIN: Is Hydro One suggesting that depreciation should represent the full amount of inflation in each year?

MS. FRANK: I struggle with how you use "depreciation."

What we're suggesting is that the revenue requirement should be sufficient to allow for the expenditures on capital, and grow the rate base consistent with what we believe is the responsible and prudent level of investment in in-service additions.

Depreciation is only funding -- the amounts there today is consistent with what the Board last approved as the rate base. It doesn't fund anything about the increment to rate base. We have an increment.

If we only spent in capital the depreciation level, if it was equal to that, then there would be no increase in rate base and we would need no adjustment for this one, because there would be sufficient carrying costs associated with it.

But we're growing rate base. Now we need to have the additional depreciation and other sort of costs.

MR. ZWARENSTEIN: In the example that you gave, with the $400 in 1972 and 20 years of depreciation, would that lead to the conclusion that, knowing your capital expenditure would be required for replacing one-on-one, Hydro One would have the full capital in hand when a replacement of assets is required ultimately?

Is that a correct understanding?

MS. FRANK: That certainly was not what we were trying to demonstrate.

What we were trying to demonstrate is when you put an asset in today, that you are replacing, even if it has a like-for-like functionality, the costs will be higher and therefore your rate base will grow.

So to the extent that there is a growth in rate base, you do not have sufficient funding with the Board's last approval, because the Board's last approval did not anticipate any growth in rate base. They assumed rate base would be steady, not grow. Never.

MR. ZWARENSTEIN: But at the hearing, the previous hearing, the revenue requirement allowed for that 414, in that it is formulaic following the approval in 2011, right?

MS. FRANK: Here's the problem. I think this is the disconnect that we've had for quite some time.

When the Board approves an OM&A dollar, the revenue requirement goes up exactly equal to that same dollar.

When the Board approves a capital dollar, all they include in the revenue requirement is the depreciation and the return components that are associated. It's not $1 for $1.

So by approving somewhat the over $400 million, they did not add $400 million to the revenue requirement. They didn't do it. They just said: How did that change rate base? And we'll allow you to have the carrying costs for the rate base.

The next year, if you spend once another, once again, $400 million, you don't leave rate base unchanged. You grow it.

And there is not enough revenue to cover the growth in rate base.

MR. ZWARENSTEIN: Would this really be an intergenerational transfer allocation, since revenue would be being recovered from current customers to fund future price escalation?

MS. FRANK: No. What we're talking about is if current customers are getting that asset in service, to benefit them, they should pay for it. We shouldn't give them a free ride today, because they have an asset they're not paying for, and have future customers pay for it. That would be a problem.

We're saying if you've got the asset, you're getting the benefit, you should make the payment. Only if it's disallowed do you cause intergenerational problems. If it's allowed, you're having the people who get the benefit make the payment.

MR. ZWARENSTEIN: Referring to Exhibit B, tab 1, schedule 1, page 4, if the $142 million were not approved as a basis for increasing revenue requirement, would that affect your returns on equity, in terms of the capital?

MS. FRANK: First of all, I believe that this work is all necessary and should be done, and the Board should agree with us that it's necessary because they agreed at the last proceeding that it was necessary.

So I'm going to start by saying that if you thought once it was good work, why wouldn't you think twice it's good work?

But if -- there's many things that can happen if the Board wouldn't approve this. One of them is that our returns could take a hit. That is one of them.

But there are other things, as well, that could happen and -- in terms of our management of our work programs. We would have to look at that. I don't know for sure it would hit the returns.

MR. ZWARENSTEIN: Those are my questions.

MR. MILLAR: Thank you, Mr. Zwarenstein.

Ms. O'Connell, did you have a couple of questions for this panel?

QUESTIONS BY MS. O’CONNELL:

MS. O'CONNELL: Yes. I had questions regarding Account 1562. Is it appropriate to address this panel?

MS. FRANK: Yes, it is.

MS. O'CONNELL: Okay. Thank you.

From reading the response to a Board Staff IR, Hydro One essentially stated that it's not required to maintain Account 1562. However, Hydro One applied for the PILs allowances for the service areas of the acquired MEUs in 2001 and 2002, in a similar way to the former MEUs.

Why does Hydro One assume that they don't have to deal with any PILs variances that may have arisen?

MS. FRANK: I struggle with why we're talking about this today. Primarily, the reason I struggle is we have already had several decisions that have been rendered after the whole issue of 1562 was established.

As a matter of fact, there was a generic proceeding on that, and we even asked: Should we be included? And the idea was: No, you do not need to be included, because it relates to a section of the code -- the Electricity Act that Hydro One is not even subject to.

So we thought that it was inappropriate. We've had decisions where there was no -– there's no balance in 1562. There's been no suggestion with decisions that we should have had a balance.

So if I go back to EB-2007-0681, we did actually have a recovery of a tax, but it was 1592, not 1562.

And when the Board decided that, indeed, we should get -– I think there's 7.2 million in that account -- get that disposed of, there was no suggestion at that point in time: Oh, you missed the other one in 1562.

This issue has never arisen until this IRM proceeding.

Tax would not even be one of the variance accounts that should ordinarily be recovered during an IRM proceeding, so I -- and haven't heard of this before. We've had decisions that would have been subsequent to when the issue should have been brought forward.

And I really feel that tax treatment shouldn't be part of this proceeding.

MS. O'CONNELL: Do you have any decisions that you can outline to me that explicitly state that you're not subject to these PILs variances?

MS. FRANK: I'd suggest you look at EB-2007-0681.

MS. O'CONNELL: Okay.

MS. FRANK: That's my best suggestion.

MS. O'CONNELL: And that, from what I understand, is the PILs variances for what you call your tax deferral account?

MS. FRANK: Yes.

MS. O'CONNELL: And how do you identify and differentiate between account 1562 and account 1592 in your PILs disposition evidence in prior applications?

MS. FRANK: We didn't have anything in 1562, right? So there was zero balance there. So all we did in 1592 is to recover items where there will be a change in the approach to tax. So capital tax changed, corporate tax changed, the tax rate changed, something like that.

But not the notion that you weren't paying a PILs or tax equivalent when your rates were first established. There's -- that's what -- and that's a different portion of the act that we're not subject to.

MS. O'CONNELL: So in a sense, in essence, you were doing some true-up of tax rate variances.

MS. FRANK: Yes, in 1592.

MS. O'CONNELL: So how is that different than pre-May 1, 2006?

MS. FRANK: The 1562 didn't deal with differences in tax treatment. It dealt with the fact that the LDCs were not paying taxes or PILs. That's what it dealt with. And we were.

MS. O'CONNELL: My understanding is that essentially it's -- the broad scope of 1562 is the difference between the PILs provision and the amount billed to customers, and then there are other add-on true-up variances to that, one being a true-up of the tax rate.

MS. FRANK: This was for entities that was not making any PILs payment, and there was a Board estimation, and they had to wait and find out as to what their PILs payment would actually be. And that was not us.

MS. O'CONNELL: So what is your read of the April 2003 FAQ, which basically states that account 1562 is to be followed for even non-section 93 electricity distributors?

MS. FRANK: I have had nothing from a Board Panel telling us we need to do this in all the years since. So I see nothing that says that this applies to us. And it has been several years since 2003, and we've been in several proceedings.

MS. O'CONNELL: Okay. From what I gather, you used account 1592 to true-up for tax declines or increases, probably tax declines over the years from May 1, 2006, forward. How does that differ from the 1991 to 2005 regime?

MS. FRANK: Can I ask you why you're asking me that question today?

MS. O'CONNELL: I guess I'm asking this question today because of the whole combined proceeding that came out, EB-2008-0381, and that basically outlined that all electricity distributors are to file for clearance of account 1562 in its next rate application.

MS. FRANK: We have nothing in 1562. Therefore, I believe there is nothing to clear.

MS. O'CONNELL: Okay. Would you be open to some other approach of estimating a balance in 1562, maybe a broad scope approach just -- this is just my, Board Staff's, just quick things that hit my mind, that basically the meat of what's in 1562 is the difference between the PILs provision and the amount billed to customers.

So if there is some, would you bring forth an approach that you would be willing to bring something of that nature before the Board to clear?

MS. FRANK: I don't believe it's necessary, because we did not have a PILs provision like other LDCs had. We were actually were a PILs-paying entity, and therefore our treatment of PILs was very much like it is today. That was not true for the other LDCs; they had to make a provision for it.

So I truly believe this does not apply.

MS. O'CONNELL: Would Hydro One be willing to have an undertaking to suggest some other approach to bring it forward?

MS. FRANK: I don't see why it would agree to that, when I don't think it applies.

MS. O'CONNELL: Okay. Regarding the change in income and capital tax rates exemptions and rules from the periods 1999 to 2011, when did Hydro One start to account for these tax changes?

MS. FRANK: In May of '07.

MS. O'CONNELL: May of '07. Why doesn't Hydro One distinguish between the rate periods regarding when the Board’s PILs regulatory applies and when it does not apply?

MS. FRANK: That's -- in May of '07 was when, with EB-2007-0681, was when the 1592 account was identified, and we have used it ever since. We didn't have anything prior to that. There was nothing for us. Nothing applied.

MS. O'CONNELL: So I guess just to summarize our conversation just now, is that you feel there is nothing to bring forward, even though you don't have a decision that explicitly states that you're not subject to account 1562?

MS. FRANK: I have nothing that says that I am either.

MS. O'CONNELL: Okay, thank you.

QUESTIONS BY MR. RUBENSTEIN:

MR. RUBENSTEIN: Can I ask a follow-up question? In 2001, did Hydro One use the Board's model to adjust its rates?

From my understanding of this, of sort of the long history of the deferred PILs -- in setting rates between 2001, the Board provided essentially a spreadsheet to adjust rates; it was sort of the first sort of PBR model. Did the Board use – sorry, did Hydro One use that model to adjust its rates?

MS. FRANK: No, we did not.
MR. RUBENSTEIN: Okay. What did --
MS. FRANK: We were already in the PILs-paying environment, so we used what our actual PILs were rather than a model that the Board provided.
MR. RUBENSTEIN: No, no, I don't mean just for PILs, but for all -- there was sort of a spreadsheet, from what I understand, to set rates in all aspects.
MS. FRANK: We would have used our own, because of the variety of rate classes we had in the cost structure. So we would have looked at the Board’s model, but then we would have modified that model to apply to our situation.
MR. RUBENSTEIN: Okay. Thank you very much.
MR. MILLAR: Okay. Thank you. I think that's all for this panel, unless I'm mistaken.
MR. ROGERS: No, thank you.
MS. DULLET: This is Kim Dullet on the line.
MR. MILLAR: I'm sorry, and you're from CME; is that right?
MS. DULLET: That’s right.
MR. MILLAR: And did you have some questions for this panel?
MS. DULLET: Well, I have a general question regarding Hydro One’s data relating to manufacturers and rate classes. Would that be appropriate for this panel, or the next?
MR. ROGERS: Next panel.
MS. DULLET: Okay, thank you.

MR. MILLAR: Sorry, we forgot about you there. I guess this panel is excused, thank you. Mr. Rogers, can we just go straight to the next panel?

MR. ROGERS: Yes, I think I saw them coming into the room. I'm going to ask Mr. Greenfield and Mr. Andre to come forward, please.

HYDRO ONE NETWORKS INC. – PANEL 2

Ben Greenfield

Henry Andre

Thank you. We have now Mr. Henry Andre to my extreme right. Mr. Andre is manager of distribution and transmission pricing, and he can deal with questions dealing with Hydro One rate proposals.

Sitting beside him to my left is Mr. Benjamin Greenfield, who, at the time of the density study, was with London Economics, and is a consultant who was involved in the density study and can answer questions about it.

Does anyone have questions on either of those two topics? Who would like to go first?

QUESTIONS BY MR. NIXON:

MR. NIXON: I'd be prepared to start the discussion. I am with the Balsam Lake Coalition. We submitted some interrogatories originally, and then we did some follow-up questions as well.

I did have some questions about -- specifically about the smart grid rate rider. I guess the question was: Why was that particular rider applied volumetrically rather than uniformly? We see it as a revenue recovery that would generate benefits to all consumers in Hydro One's rate base. Why was the rate set such that it's significantly higher for the seasonal rate customers than it is for all the other residential rate classes?

MR. ANDRE: Yes, it -- is it Mr. Nixon?

MR. NIXON: That's correct.

MR. ANDRE: Yes. Mr. Nixon, you asked that in your Technical Conference Question No. 1, I guess.

And as we state in that response, Hydro One is proposing an approach for collecting the smart grid revenue in accordance with the Board's IRM models, and so the IRM model takes the revenue to be collected associated with smart grid, and distributes it across the rate classes based on the revenue share that currently exists, based on the currently approved cost allocation.

And so we're quite simply just applying the Board's model, and the Board has -- they have a straight volumetric option, and they have a fixed and volumetric option. And based on the Board's decisions in other IRM applications, where they have favoured a volumetric charge, that was the basis of Hydro One's proposal.

MR. NIXON: I understand that in the response. I guess the purpose of my question was to ask for clarification why you compared the model that Hydro One used to the three other utilities that only have a single rate class, where Hydro One has four different rate classes and obviously has significantly different ratios of cost to revenue, depending on those rate classes.

MR. ANDRE: The reference to the other three utilities in your original IR response was to point out that, for those three utilities, the Board favoured or approved just a straight volumetric rider.

So it wasn't -- it wasn't the methodology for allocating the revenue to the various rate classes that was at issue. It was Hydro One was looking for a rationale as to why it chose to go with just a volumetric rider, as opposed to a fixed and volumetric rider.

MR. NIXON: Following up with that, I think the thing that concerns us is why it is that the seasonal rate customers are paying such a significantly higher component rate on this smart grid rider than all the other residential rate classes.

And I understand the algorithm; I just don't understand the equity or the fairness in it.

Would you consider any other approach that might be more equitable or fair to all rate customers, particularly seasonal?

MR. ANDRE: As I say, I personally think that the Board's approach of taking the smart grid cost and allocating it across all of the rate classes based on the revenue share -- Mr. Nixon, when we eventually have a rebasing application and the smart grid costs are rolled into -- the fixed asset costs are rolled into the rate base and the OM&A costs are rolled into the OM&A portion of our revenue requirement, the Board's model is going to allocate it based on the way that it currently allocates it. So it has a bunch of factors that are related to customers, it has some factors that are related to peak load. It takes a minimum system into account.

It take a whole bunch of factors that it uses, not just for Hydro One but for all distributors. So when it does that, I think the best approximation of how those smart grid costs are going to fall out to the various rate classes is the revenue share that is currently applicable to those rate classes.

So I think that's a fair approach. I think the Board's approach is a fair approach, and it's not Hydro One's approach.

I do recognize that something that could be done would be having a fixed and volumetric charge. Certainly that is a Board option, and that is something that we could consider.

MR. NIXON: Thank you.

I did have one other follow-up question on the technical response No. 2, where we specifically asked for a distribution of the customers, seasonal customers, depending on how they were served, by what feeder.

So what we're trying to find out here, basically we're trying to get an understanding of where are the seasonal customers in Hydro One's territories; not just by operating area, but we would like to know to what extent they're co-located with other classes of service. Okay? Density being such a huge issue, and we know from the density study that -- we learned from that that the density issue is a major component of Hydro One's cost, and we know from anecdotal evidence that a number of seasonal customers are co-located with residential customers, year-round residential customers, who are in some cases even urban class or R1 or R2.

We're trying to get a feel for how big an issue this is, and so the intent of my customer was to ask: How many seasonal customers are fed off the same network feeder as, for example, customers that are fed -- classified as urban on that same feeder?

You answered a completely general question, that said: Well, seasonal customers are fed basically off networks that feed all of our customers. Well, we know that.

The question was: How many seasonal customers are fed off the same feeder as urban customers? How many seasonal customers are fed off the same feeder as R1 customers? And how many seasonal customer are fed off the same feeder as R2 customers?

Would you be able to answer that for me?

MR. ANDRE: The reality is, Mr. Nixon, that I looked at the data that we have available, and it does show that, pretty much, there is no feeder out there that just supplies seasonal customers.

So any feeder out there will supply. In terms of how many are broken out between those classes, short answer is no, I don't have that data available. It would require information on connectivity and require going through our connectivity database to say: Okay, how many. Because there won't be any feeders that just feed urban customers, either.

So you say: Well, how many seasonal are on feeders that serve urban customers? Well, there are no -- I shouldn't say there are no, but typically feeders will feed a combination of urban, R1, R2 customers, as well as seasonal.

So the data you're looking for at that level of granularity is not something I have readily available.

MR. NIXON: Okay. That's all the questions that I have.

MR. MILLAR: Thank you.

Bill, do you have questions for this panel?

QUESTIONS BY MR. HARPER:

MR. HARPER: Yes, I do, actually.

And the first one was one that didn't come under the density study aspect, but it was bumped to you from the previous panel. And it was VECC Technical Conference Question No. 21, and that's dealing with Exhibit I, tab 7, schedule 5.03, which was VECC IR 38.

MR. ANDRE: Yes, I have that, Bill.

And I thank Susan for punting it to me.

MR. HARPER: I think -- I'm trying to find the -- I apologize, I'm -- I can't find the IR, but I think I can maybe deal with it off the top of my memory of the original response.

Because what we were dealing with here -- and I think the reason it was punted to this group was that we were asking why -- and this is looking at the contributed capital contribution that Hydro One Distribution is making to Hydro One Transmission, and looking at how that is allocated to individual customer classes, and asking specifically about -- and I think you're allocating, I think, in somewhat -- using a method very much akin to what you just finished talking to Mr. Nixon about, in terms of how you allocated all other costs.

And I guess whether or not you were -- this question asked you, effectively, whether you were aware of the Woodstock decision, which was precisely the same type of spending and where the Board decided, based on the nature of that spending, it wasn't really spending for distribution facilities; it was spending on what was something akin to a transmission facility, and basically decided that there was a different allocation method that should be used in allocating those costs to customer classes, because it wasn't related to capital contributions for a trans -- and I was asking whether you considered that, and the response really didn't address my question at all, sort of thing, and so I was asking you now whether, one, you were aware of it, and whether -- you were aware of it and rejected it, or why you didn't follow the same approach that the Board had directed and agreed that Woodstock should be using.

MR. ANDRE: Yes, Bill. So when I saw your Technical Conference Question 21 and I saw your reference, I went back. And I agree with you, the original question -- the original reference provided to your original IR didn't really answer the question. And I wasn't aware of this at the time that we filed the application. But based on your technical conference question, I did look up the Woodstock decision and familiarized myself with how the Board -- or what the Board ended up approving in the Woodstock case, and so – and I don't know if you've seen our -- this is one of those that we provided a written response for, and I don't know if you've seen it.

MR. HARPER: Yes, I did – or maybe, I'm sorry, maybe I haven't.

MR. ANDRE: I think -- so what's written in the written response, Bill, is that, so if -- in our case, Commerce Way TS, Bill, accounts for .7 million of the 26.2 million in ICM revenue that we're collecting through the ICM module.

So in Hydro One's case, that capital contribution is a really relatively small portion of the ICM revenue. And I actually worked through the numbers, so if we took that .7 million and allocated it on the basis of the transformation – you know, the transformation transmission charges instead of what we have now, as we see in the IR response that for most cases -- for most rate classes, in fact it doesn't change the rider at the fourth decimal place.

In some cases, there is a .0001 change. The only rate class that saw, you know, something – it's still less than a penny per kilowatt. But the ST class did see a slightly larger impact of doing that. But for the other classes, it's a minimal impact, and because for Hydro One that capital contribution, as I said, is .7 of the 26.2, we don't really think it's going to have a material impact on the overall recovery of the ICM.

MR. HARPER: To maybe summarize, you don't object in principle with the way it’s done in Woodstock. At the end of the day, it wouldn't make a lot of difference?

MR. ANDRE: Exactly.

MR. HARPER: Okay, fine. That's fine. I just wanted to sort of clarify, because I didn’t seem to --

MR. ANDRE: I understand.

MR. HARPER: If we could go tom VECC Technical Conference Question 25?

And this is really looking at how the density factors are used within the cost allocation, and really how they're used here and how you anticipate using them at your next re-basing application, which, I guess, is the next time this change in density would be used is when you came forward as part of a cost of service application for a re-basing of the rates and ran your cost allocation model one more time.

I guess I was trying to say -- will the density factors for rebasing -- will you be using density factors similar to what you’ve got set out here, subject to any updating you may do, to establish the cost to be allocated to each customer segment, or as you've done here, basically within each customer segment you would still be using the existing process, the cost allocation model and to allocate costs on a broad basis to customer segments – when I say a customer segment, it would be all residential classes plus seasonal, and within the segment would then be the individual seasonal residential customers.

MR. ANDRE: Yes.

MR. HARPER: And if I understood your responses -- and maybe I can put it in my words, and you can tell me if I’m right or not -- you would still be using the cost allocation model as it exists right now, with its density weightings to allocate costs to the broader segments. But you would be using the results of a density -- the density study to redistribute those results within the customer segment to the individual customer classes, like you've done in this particular application. Do I understand that correctly?

MR. ANDRE: Most of the way, Bill. We are still considering how we would actually roll it into the details of the cost allocation model. And certainly what you have described is one approach that we could use, and it's similar to what we've done now, as you say.

The one thing -- however it's implemented, I think the fundamental approach that allocating the cost -- so using the Board’s cost allocation cost model to allocate the cost to the customer segments, in the same way the Board’s model does for all LDCs, that's not going to change.

So whatever approach we end up using will involve reallocating costs within the customer segments, so that we stay true and faithful to the Board's cost allocation methodology -- let me finish.

But in terms of whether we use the density weights that are there now, or -- I mean, my preference would be if we could find some way to come up with a more transparent use of a density factor, you know, something similar to other factors that the Board model has now, that leverages the density study more directly and avoids doing some calculations, some separate calculation on density weighting, you know, that's specific to Hydro One.

I'm still thinking about it. But my preference, if it's feasible, would be to use just the results of the density study to do -- to the extent possible, to do that density allocation, or density adjustment.

MR. HARPER: I thought I understood the answer. And then I wasn't too sure at the end if I did.

MR. ANDRE: So basically, the density weights, if they can be feasibly and reasonably be replaced with a number of density factors – as you know, right now the density weights, like there’s four density weights that apply to each rate class. There’s a couple of lines ones, there’s a couple of transformer ones.

To the extent that we could come up with a density factor, one density factor per rate class that would redistribute the costs within the customer segments, that would be my preference.

But like I say, we’re still considering how we’ll implement it in the cost allocation model.

MR. HARPER: Maybe we could take a -- the trouble I have here is the model allocates across customer segments. So if you actually incorporate it in the model, it will actually change the allocation between customer segments. And what I was trying to get a sense of is whether you saw the results of this density study changing the allocation between segments and no --

MR. ANDRE: No, absolutely not. If that's what you got out of what I said, then -- because I started by saying however we implement it, it will most definitely maintain the cost that the Board allocates across segments, and then only do shifting within the segment.

MR. HARPER: Maybe we -- when you say the Board model, I guess I interpret you as saying -- there’s a -- the Board’s got a Board model, but everybody puts their own inputs into it. And you currently have a set of density weightings that you put into that, the four factors for each class, that allocates across segments.

What I understand you saying is you aren't going to change that. What you may – what you're trying to figure out, whether you mechanize it or not, is how you’re using this density study to redistribute the costs amongst the individual customer classes within each segment, but not in any way use the results of this study to change the allocation of costs across segments.

MR. ANDRE: That's correct. And I would point out that the density weights that we currently use achieve the same thing. The density weights do not allocate across segments. They allocate within the segment.

MR. HARPER: Well, they can’t -- the density weights -- when you weight the number of customers, you weight the number of customers in every single customer class by a certain weighting. And in doing that, it allocates the cost between segments with the weightings you have right now. That's what I'm struggling with, the fact that the current allocation allocates across segments using weightings, density weightings, and I was trying to understand whether those -- and this is where I think we’re having a problem.

So the current model, the current density weights you have allocates across segments based on density. And I guess I was trying to understand whether or not you saw this approach being used just to allocate -- redistribute the costs within the segment, or step it up one and redistribute the cost across the segments.

MR. ANDRE: I think in your interrogatories, you did ask an interrogatory that had us submit our – like a working copy of the cost allocation model, right?

MR. HARPER: Yeah.

MR. ANDRE: I would urge you to take a look at that model, because unless I'm completely misreading what we've done over the last couple of years, you will see on the tab -- I can't remember the tab number now -- the allocator tab where we apply our density weights. So what you would see is -- for those customer segments like residential, you would see a set of factors that would take the total number of customers allocated by the model to those four residential classes, and weights it so that you still get the same total number of customers across the four residential within that segment, but re-weighted. And the other classes would have a density weighting of one, which means just use the number of customers exactly as the model calculates it.

So I guess what I'm saying is I don't agree with you that the current model shifts costs across segments.

MR. HARPER: So what you're saying is the current model effectively uses a weighting of one to allocate –- the weighting of one per density to allocate total cost to all –- to the residential segment in total, and then only uses those weightings to redistribute the costs between the segments.

And similarly so, on a per customer basis, the costs allocated to -- but the problem is it includes seasonal in with other residential, right?

MR. ANDRE: Yes, it does.

MR. HARPER: Okay. I'm sorry, maybe I misunderstood.

MR. ANDRE: Have a look at it and I would certainly be glad to help you. But I’m pretty certain that that’s the case.

MR. HARPER: I guess the other thing was – maybe you can tell us, remind us what was the vintage of the data that was used in the current density study?

MR. ANDRE: Current density study?

MR. GREENFIELD: I can answer that one, Mr. Harper.

The cost data that was used in the density study covered a five-year period from 2006 to 2010. When I say "cost data" I'm referring primarily to OM&A. Some of the other cost categories -- vegetation, for example -- we actually looked over a longer period to take into account the cyclicality of that work program.

The customer and asset data was effectively a snapshot, the most recent snapshot at the time the study was completed, and so it would have been primarily for 2010 and would have included data on customers and assets in the GIS system at Hydro One up to that point.

MR. HARPER: Okay. I guess I was wondering, when you file your next cost of service application it's going to be for -- we had a discussion early this morning. 2014 rates, 2015 rates. We're not too sure what point in time, and I guess maybe you don't know, but assuming, let's say, it was 2015 for want of picking a date, would you see there'd be any need to refresh the results of the study, given the vintage of the data that's currently in the study? Or would you see continuing to use the results of this study for that filing?

Or is this something that you haven't thought about yet?

MR. GREENFIELD: Again, I would be happy to answer that one.

A number of the parameters -- and when we talk about the study, I'm going to make an assumption that you're referring specifically to the direct cost assignment component of the study.

MR. HARPER: Yes.

MR. GREENFIELD: A number of the data points, particular assets, customers, would not be expected to be -- would not -- I would not expect to materially change over a short period of time, and so I would not expect those to have a material impact on the study findings. Things like annual costs obviously do change, but again, the fact that we used what I'll say is a medium-term kind of average cost in calculating the assigned cost to each of the various sample areas to me suggests, at least, that there wouldn't be a need to refresh or update the data on an annual basis, or anything to that extent.

I think my recommendation would be that -- sort of on a five-year basis, to revisit whether there needs to be an update, not necessarily to update it, but to revisit whether there would need to be updates.

MR. HARPER: Okay. Fine. Thanks.

I apologize. I was struggling with my next question here and trying to go back to the IR that I had referenced, and it didn't seem to be dealing with the question that I'd posed. So I was at somewhat of a loss as to where to go.

Maybe I can pass on VECC Technical Question No. 26 and come back to that in a minute, if you don't mind.

If I go to No. 28 -- and maybe if you look at the response to -- I think maybe VECC 70(c). Let me see if that's the one that has it. Right.

And we're talking here about setting the seasonal target ratio equivalent to the R1 class. And it's the last -- if I look at the response to VECC 70(c) and the last sentence in that response, and I just -- maybe if you could explain it to me, because I must admit I didn't understand it when I read it. It said:

"Setting the seasonal target ratio equal to the R1 class recognizes that increasing the density weight differential between the rate classes will not alter the fact that the CAM methodology will drive the R1 and the seasonal cost for customers to roughly be equal."

I'm paraphrasing that last couple of words, but – I must admit I read that and I didn't quite understand that. I was hoping you could explain that to me a little more.

MR. ANDRE: Sure. Yeah, I can elaborate a little bit on that.

So the density study had suggested that the seasonal customers, that their density is going to be somewhere between that of R1 and R2, but it wasn't specific as to where that would lie.

So Hydro One looked to its full customer database and the relationship of seasonal customers and their relative density, to see what is the relative density of seasonal customers in relation to the other residential customers. Okay?

If you look at -- and maybe what I'll do -- if you could turn to VECC 66, I think it might be helpful. Are you there, Bill?

MR. HARPER: Yes, I am.

MR. ANDRE: So VECC 66, part (b), where it shows the relative density weights of the -- so if you look at the first four rows -- and it shows density weights relative to the urban residential. And what you see there is that in terms of the density weights that we're currently inputting into the model, seasonal, you know, in some cases is close to R2. In some cases, it's even higher than R2.

So across those four density weights, what we currently have in the model does what the density study says you should do. But what happens within the model is that the impact of the minimum system then comes into play, and the Board's use of the minimum system -- because the consumption levels or the peak demand levels of the seasonal class are such that when you factor in minimum system, a lot of the costs disappear, a lot of the costs become a per-customer cost instead of demand-based cost.

So the net impact of the density weights that we currently use, that recognize that seasonal will lie somewhere between R1 and R2, plus the impact of the minimum system, means that when you look at the bottom-line costs allocated by the cost allocation model, you end up with a ratio relative to UR for R1 and seasonal that are about the same.

So while Hydro One is incorporating the results of the density study, we also wanted to recognize that, over and above that, the model also has the minimum system concept, which in the case of the seasonal is driving those costs down.

So even if we increased the differential, even if we did something within the guts of the model to increase that differential in costs, we believe that the minimum system approach that's embedded in the model would drive the net costs, when you look at a cost per customer basis, for R1 and seasonal to be roughly equal.

So that's why we're recommending that.

MR. HARPER: That's because you're making a bottom line adjustment?

MR. ANDRE: Correct.

MR. HARTPER: If you were somehow managing to incorporate the results of the study into the allocation, that would parse this issue from the minimum system issue, and you could use a ratio that was more -- that was sort of more in tune with what the actual results coming out of the density study itself were?

MR. ANDRE: Correct.

MR. HARPER: Is that a fair...

MR. ANDRE: Yes, I'd say that's fair, Bill.

MR. HARPER: I guess that points to one of the problems with making a bottom line adjustment to the cost allocation, is to some extent it only -- the bottom line adjustment you're making is only taking into account, you know -- if you try a bottom line adjustment, apply only the results of the density study, then you are missing out other intrinsic things in the cost allocation, like the minimum system, like the fact it uses relative loads to allocate some of the costs, and a whole bunch of those other allocation factors at all.

And in this one particular instance, you made a judgment to account for that; is that a fair comment?

MR. ANDRE: No, I -- Ben, do you want to comment?

MR. GREENFIELD: Yes, I'd like to. And please correct me if I am misrepresenting what you're saying, but the way I hear your question is it's implying that the density study only looked at one of the allocation factors in the model and missed some of the interplay between other allocation factors in the cost allocation model.

MR. HARPER: That was my assumption, and that, I thought, was what your colleague there was saying, as well, actually.

MR. GREENFIELD: So the density study and the direct cost assignment that was carried out as part of that study actually looked at a number of different factors when allocating costs to the sample areas. We were actually explicit in not using density as an allocation factor. And the idea was to allocate costs to different sample areas across the province, based on first principles around what the cost is to serve these sample areas. We took into account customers, we took into account other factors, similar to the cost allocation model.

The cost allocation model allocates costs to rate classes based on customers, based on demand, based on density, based on a number of factors.

The density study similarly allocated costs to the sample area, so the result of the density study is not explicitly the difference in cost that's driven solely by density. It represents the overall difference in the cost to serve customers of different density.

MR. HARPER: Can I just stop you there?

MR. GREENFIELD: Sure.

MR. HARPER: I hate to go back and forth. But when you did that allocation, you didn't distinguish between the load in different areas. A transformer was a transformer regardless; you didn't look at the different sizings of different transformers in different areas, given the load they had to serve.

You just had one fixed cost for a transformer. You didn't look at the sizing of different types of conductors. There was one fixed cost for each conductor.

So I think, to some extent, to say that – it’s fair to say that to some extent to say it was based on load, it really wasn't. It didn't take load into account in each sample area, because a lot of those assets which would vary based on load size, you had a fixed cost assigned to each one that did not take into account potential variations in size. Is that not the case?

MR. GREENFIELD: There were a -- as responded to the IRs, there were a number of simplifying assumptions that were made. You mentioned two in particular, the transformer costs and the conductor costs that were used in the asset replacement values -- at least in the statement you just made, you mentioned those two.

MR. HARPER: Yes.
MR. GREENFIELD: That is correct. We used a single assumption around the replacement costs for those assets. We do recognize that in reality there are varying degrees of costs associated with those assets in Hydro One-serviced territory.
One of the points I would make, however, is that -- and this is contrary to what you're suggesting, that it is obvious that failing to do so somehow biases the results of the density study.
MR. HARPER: Doing is a little bit more would change the results of the density study is all I would suggest. I don't know which way it biases, or if it biases, but it comes up with a different result.
MR. GREENFIELD: It's possible it would come up with a different result, but it's not clear to me that it would necessarily bias it in one direction or the other. And, you know, if I use the example of transformer costs, for example, yes, you may install a larger transformer in a higher density area, but that could be to serve five customers as opposed to a cheaper transformer that’s installed in a low density area to serve one customer. And on a cost per customer basis, there is no explicit –- there is no reason to believe that it would necessarily bias that, one way or another.
MR. HARPER: Okay. Actually maybe just to -- I would like to go to VECC Technical Conference Question 32, which I believe you provided a response to.

MR. MILLAR: Mr. Harper, we're probably getting close to a time for a break.

MR. HARPER: Actually, I think this will be my last one.

Actually, I was just looking -- you provided the data I was requesting, except when I looked at the attachment, I think there is a column missing on the far left-hand side which says what each row is supposed to be.

MR. ANDRE: Yes, so that first -- that table on the very first page, Bill, is a duplicate of what's on the next page. So ignore that first page, because that second page gives you that column on the left-hand side that you’re asking for, and then the actual numerical data is the same as -- I'm not sure some gremlin came in with the printing, and that first page isn’t really required.

MR. HARPER: Okay. I wasn't too sure whether I had two pages, one after the other, and I was missing half of the --

MR. ANDRE: So go with the second -- the second and third and fourth pages are what you want.

MR. ROGERS: We're very impressed that you noticed, Mr. Harper.

MR. HARPER: That's only after getting it at nine o’clock this morning.

I guess the other thing was – what my main problem was, too, was that -- now that you’ve forced me to look at the second page where you have the names down here, I guess -- because what I was missing before was just the accounts which had asset related accounts.

And if I look at this table, what my main concern was was that the original response you gave me had all of the OM&A related accounts, and none of the asset related accounts. And if I look at this --

MR. ANDRE: So the first page – again, we gave you everything. So we repeated the OM&A one on page 2, and what you specifically asked for in this IR, which had to do with fixed assets, Bill, are actually on pages 3 and 4.

So on pages 3 and 4, what you'll see is the 1800 series of accounts, which are the assets.

MR. HARPER: But what this does is -- this just looks at – I don't know whether it's gross book value or the net book value of the assets in each case. Maybe you can tell me which of those two values it is.

MR. ANDRE: Let me see here. From the amount, I think they are the gross book values, yes, because there is just a customer related cost and they're both 50/50, and I know our gross book value was around six billion, so --

MR. HARPER: Is there any way of readily translating this into what is the -- if I look at the cost allocation model, what's the revenue requirement equivalent of these numbers when it comes to what's -- what are the costs that are allocated to each of these classes from a revenue point of perspective, which I guess would be the depreciation, the interest and the net income?

This gives me the assets. But if I'm at the end of day looking at costs the customers are paying – like at the table, which is OM&A, that's fine; an OM&A dollar goes directly into revenue requirement, and an OM&A dollar I can translate per customer; that’s what the customer is going to see in their bill.

But if I have fixed asset cost here, that's just the total fixed asset and not – then subsequently the model goes through and translates and comes up with the depreciation value, and interest value, and income value associated with that for each customer class. I don't know whether there is a --

MR. ANDRE: I understand what you're asking, Bill. So the depreciation, if I recollect, would be -- would have its own tab. So depreciation is not allocated based on net fixed asset. I think there is a tab that allocates depreciation across all of the rate classes for --

MR. HARPER: But it's allocated either on gross or net fixed assets; that's how it's allocated, if I’m not mistaken.

MR. ANDRE: Okay. You may be right.

MR. HARPER: The expert over here is nodding his head.

MR. ANDRE: Yes, you may be right. And then obviously, yes, interest and net income would be based on the net fixed assets. I mean, these are the net fixed -–sorry, these are the gross fixed asset values. You know, we -- I suppose we could follow the trail and --

MR. HARPER: Well, I don’t know if it’s – you know, if I think it's worthwhile, either I will try and do it on a simplistic basis, or if you think you can do it in a readily easily period of time, you’ve probably got the Excel capability to do it much easier than I am.

So maybe, if it doesn't take an excessive amount of time and effort on your part, maybe it's something you can look at doing. If it does, if it's going to take a lot of time, maybe just come in and advise us of that, and that will be fine, if you’re willing to do that.

MR. ANDRE: I think we've committed to next Wednesday. I think in that time frame, Bill, we should be able to do that.

MR. HARPER: Okay, fine.

MR. ANDRE: I'll take that undertaking.

MR. HARPER: Thank you very much. Those are all my questions.

MR. MILLAR: That will be TC10 -- can I just get a clear statement of exactly what the undertaking is for?

MR. HARPER: Right. The response to that Technical Conference Question No. 32 provided the net book values of the assets that are allocated to each of the customer classes.

I was interested in knowing what would be the resulting revenue requirement associated with those, in terms of depreciation, interest, and net income.

UNDERTAKING NO. TC10: TO PROVIDE THE REVENUE REQUIREMENT ASSOCIATED WITH THE NET BOOK VALUES OF ASSETS ALLOCATED TO EACH OF THE CUSTOMER CLASSES IN TERMS OF DEPRECIATION, INTEREST, AND NET INCOME; REFERENCE VECC TCQ NO. 32

MR. MILLAR: Okay, thank you. We'll take our break. I want to get a sense of time left this afternoon. Miss Dullet, are you on the line?

MS. DULLET: Yes.

MR. MILLAR: How long do you think you'll be with your questions?

MS. DULLET: Just five minutes or so.

MR. MILLAR: Okay. Mr. Rubenstein? Nothing? I think staff has five or ten minutes, so we'll probably only be another fifteen minutes, hopefully.

But still, I think the court reporter has been sitting for a while. Let's take a short break until 3:15.

--- Recess taken at 2:58 p.m.

--- On resuming at 3:14 p.m.

MR. MILLAR: Why don't we get started, and hopefully finished in short order?

Ms. Dullet, are you on the line?

MS. DULLET: Yes.

MR. MILLAR: Okay. Would you be prepared to go now?

MS. DULLET: I am. I'd be happy to.

MR. MILLAR: Thanks.

QUESTIONS BY MS. DULLET:

MS. DULLET: So my question is a follow-up from the response we received last night to the CME Technical Conference Question 1 -- (b), (c) and (d), essentially -- regarding the lack of specific forecasting for the numbers of manufacturers within rate classes, and the consumption of manufacturers within rate classes.

Do you have any internal data specific to your manufacturing customers, in terms of the numbers and consumption?

MR. ANDRE: Yes. In developing the response to this interrogatory, I did check with our load forecast person and I got it from him that we really don't have the data at a level of detail that lets us identify the specific manufacturers.

MS. DULLET: What's the reason for that? Is that just an analysis that hasn't been undertaken? Is it too onerous, or is it something that you would consider in the future?

MR. ANDRE: It's the type of analysis that -- it hasn't been required in the past, certainly isn't required to do the cost allocation model. So it's not a piece of information that, as a business, we needed in order to -- in order to run our business and do the things that we need to do.

So yeah, it hasn't been collected.

MS. DULLET: Is it something that you may consider in the future? Certainly from our perspective, it would be useful.

MR. ANDRE: I'm -- I mean, I think that's something that I would have to discuss. Again, I don't really see a business need.

Unless there is a business need that will drive efficiencies within the company, it will improve certain aspects of what we do within the company, unless you can point to that, it's not something that we would undertake.

MR. ROGERS: It's Don Rogers, counsel.

I think -- well, Mr. Andre just answered the question. I don't think they would undertake do that, because it doesn't have any business value worth the cost to doing it for them, I think.

MS. DULLET: All right. Thank you for that. That's essentially it for me today.

MR. MILLAR: Okay. Thank you very much.

Mr. Mather has just a couple of questions, but just let me double-check. I see Mr. Rubenstein may have a question, as well.

QUESTIONS BY MR. RUBENSTEIN:

MR. RUBENSTEIN: I have a single question. This is SEC 28; I don't know if you have it?

MR. ANDRE: Yes, I do, Mr. Rubenstein.

MR. RUBENSTEIN: This is with respect to Interrogatory No. -- SEC Interrogatory No. 41, where we asked:

> "Please advise what the rates would be for 2013 if the general service energy and demand-billed customers were split into three classes of the same density break points as residential."

And your response essentially said that you can't, because you don't have -- you'd have to rerun the cost allocation model, and you don't have certain information readily available.

And we asked in our technical conference question:

> "Could you please provide as good an estimate as

possible of the rates for each of the three classes, if the proposed split were implemented?"

MR. ANDRE: In the original IR response, we highlighted the different pieces of data that would be required. And the key piece of that data would be the number of customers that would exist in these three new rate classes, Mr. Rubenstein.

And so until 1996, Hydro One had just a general service class, just a single class, and at that point we introduced urban rates and so for the purpose of identifying what customers are in urban, we went through that effort to identify how many GS customers fall within an urban area.

But we never looked outside of that, to say: Okay. Outside of an urban area, how are general service customers broken out?

So the answer really is as simple as that. I don't have -- I can't hazard a guess as to how many general service would fall within R1 zones and within rural zones. And without customers, I couldn't do what you asked in terms of estimating the rates.

MR. RUBENSTEIN: You wouldn't have collected any data when doing this density study that would allow you to sort of extrapolate some sort of reasonable way to come at an estimate?

MR. GREENFIELD: Nothing that would let you come at an estimate for Hydro One's entire service territory.

MR. RUBENSTEIN: Thank you very much.

MR. MILLAR: Thank you, Mr. Rubenstein.

Mr. Mather?

QUESTIONS BY MR. MATHER:

MR. MATHER: First, I guess a follow-up on what you were talking with Bill about a little while ago, the intuition only takes you so far with these density weightings. In fact, it doesn't take you very far at all.

You mentioned the minimum system as one of the things that sort of derails your intuition. Were you including the peak load carrying capability under that general topic?

MR. ANDRE: Yes, absolutely. That's what I was referring to, was the peak load carrying capability factors.

MR. MATHER: Thank you.

In terms of the -- I really only want to confirm my understanding, I guess, of a couple of your interrogatory responses, first one being Board Staff No. 34, which is our first one under Issue 13 and just my -- confirming my understanding of the regulation, which is: $127 million that's currently available to Hydro One, is that Hydro One Distribution, Hydro One Networks Distribution?

MR. ANDRE: Yes, Hydro One Networks Distribution.

MR. MATHER: If, say, Hydro One remotes were to become eligible for a larger amount of RRRP, that would not encroach on the 127 million?

MR. ANDRE: Right. The remotes amount is separate from the 127, and more so the legislation for remotes says that the OEB will determine that amount periodically -- I don't think it's annually -- and if that amount goes up, the legislation allows for an increase in that amount, as opposed to 127, which remains fixed.

MR. MATHER: Right. And so that goes for the other distributors that are eligible for Triple-RP, as well, I think?

MR. ANDRE: Algoma, correct.

MR. MATHER: So the 2850 per customer is more or less a fixed amount, unless the number of R2 customers were to increase or something? In which case, something would have to --

MR. ANDRE: Exactly.

MR. MATHER: So the 217, by which the distribution cost goes up because of this adjustment, then that's paid entirely by the R2 customers? Or maybe there is a 10 percent discount there for the Ontario Clean Energy benefit? One or the other of those, I guess?

Like, there isn't any additional relief coming from Triple-RP on account of this re-weighting?

MR. ANDRE: Correct.

MR. MATHER: Thank you. That's really all I was driving at there.

My other question concerns our No. 39, and the issue there is the demarcation of the classes and the -- that has to do with the size of clusters and with the density of customers within the classes.

I think that with the stakeholder sessions, this study that you presented did everything the stakeholders agreed could be done by studying the costs at the area -- at the service area level.

And is my recollection that we brought up that topic? I think Bill maybe brought it up, and perhaps others, that if we were to study the demarcations between classes or the number of classes, that that was just going to stretch the service area analysis just sort of beyond credibility?

MR. GREENFIELD: My – the -- it was clear from the stakeholder sessions that the primary objective was to understand this relationship between density and cost to serve. And that was the one thing that everyone was comfortable with and was focused on understanding.

Secondary objectives which were laid out in the study were to look at how the weighting factors that are currently in the model appropriately reflect that relationship, and as part of that we looked at the number of classes and the weighting factors and the demarcation points.

MR. MATHER: So a methodology that would, in fact, get at demarcation points would be -- would have to approach it in some different way?

MR. GREENFIELD: Yes. To get at that point in more detail than was available in this study.

MR. MATHER: And yet the demarcation points is what got us into this issue to some extent in the first place. I recall Jay Shepherd inquiring why schools in various middle-sized places couldn't be in UR -- or UG, as opposed to ordinary density; is that...

MR. GREENFIELD: I wouldn't be able to offer a --

MR. MATHER: That was before your time, Ben, yes. And Henry's too, I guess, in terms of this topic.

MR. ANDRE: Yes.

MR. MATHER: I'm not giving testimony; I just happen to think that that's still kind of on the table.

Now, the answers to -- I'm trying to think of some way to ask this question that doesn't make me look like a smart-aleck, but the response to both (a) and (b) of No. 39 is that Hydro One currently has no plans for additional classes and additional study of demarcation points.

And I'm sure that's right, but does Hydro One have a plan to have a plan? Or is there anything underway that would bring information on the demarcation points and the densities and number of classes at the next cost allocation study? Or...

MR. ANDRE: You know, we do have a new GIS system available now, and we put in our new SAP system for tracking costs. And so these are new tools that we have available and reporting systems, and we're trying to get a better -- we're seeing how we can use that to possibly get a better understanding of cost to serve, to see if there is anything there.

But at this point in time, we would say that the conclusions of the study, even though they weren't necessarily focused on that second and third objective, I think the conclusions of the density study are that the existing demarcations are reasonable. They're not --

they're not incorrect, and so there really isn't a driving need to make any kind of change right now.

So I won't rule out that, you know, as we use our available information, that at some point in the future we might want to make changes, but certainly right now there are no plans, or plans for plans, to make changes.

MR. MATHER: Okay. I think Board Staff doesn't have any intent to pursue this -- certainly not in the context of an IRM application -- but that's helpful. Thank you.

MR. MILLAR: Thank you, Mr. Mather.

Anyone else? Yes?

MR. COWAN: I should introduce myself.

MR. MILLAR: Yes, for the...

QUESTIONS BY MR. COWAN:

MR. COWAN: Ted Cowan, with Ontario Federation of Agriculture. I'm acquainted with many of you. And had a little bit to do with the density study being done the way it was done, using the particular methodology.

With respect to the response to Board 34, a little clarification is possibly needed. There are a substantial number of customers in general service low density, that are farms with residences and receive the Triple-RP. It's not the strict residential class that receives Triple-RP. Possibly 15-, 20,000 such farms, though 10 percent of the total recipients, a little less than 10 percent of the total recipients.

With respect to no plans to change the number of classes or the class definitions, our only thought with respect to improving the density study would be that density effects should be studied within classes, as well as between classes. And the likely upshot of that would be to illustrate that density is a significant influence on costs but not a particularly substantial influence on cost, because you would see that density in classes and other factors within classes are just as or more important than density.

Density is an easy one to see because it pops up on a map, and we can therefore ascribe a lot of importance to it. But if you look at it the within-class variations in costs, something other than density is going to be almost as important, perhaps more important, than density.

If you're only looking at the black ducks, you're going to be thinking of funny quackers, but there are all sorts of ducks out there and you have to look at them all, get them in a two. A difficult problem getting ducks in a row, but it's got to be done.

That would be the only reason we would see for revisiting the density study.

And the final thought on this is section 73 of the Electricity Act will provide the Board with sufficient guidance.

MR. ROGERS: Thank you, Mr. Cowan.

MR. MILLAR: Is that all, Mr. Cowan?

MR. COWAN: Yes.

MR. MILLAR: Okay. Thank you very much.

Is there anyone else in the room who has any questions? Last call? Okay.

Thank you very much to the parties, the witnesses, of course, and of course the court reporter. This concludes the technical conference.

Did you have any --

MR. ROGERS: I just want to say I want to thank everybody, and the comment that the specificity of the questions that were put this time were very helpful to the company; as you can see, they answered a lot of them in writing.

And so having a real focus like people tried to do was very helpful.

MR. MILLAR: So I think we're adjourned for today. Just a reminder that the settlement conference begins November 30th, which is next Friday, here at the Board at 9:30 a.m. Thank you.

--- Whereupon the conference concluded at 3:30 p.m.