

ONTARIO ENERGY BOARD

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| FILE NO.: | EB‑2013-0116 |  |
| VOLUME:  DATE:  BEFORE: | 1  April 29, 2014  Christine Long  Cathy Spoel | Presiding Member  Member |

EB-2013-0116

THE ONTARIO ENERGY BOARD

**IN THE MATTER OF** the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sched. B;

**AND IN THE MATTER OF** an Application by Cambridge and North Dumfries Hydro Inc. for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2014.

Hearing held at 2300 Yonge Street,

25th Floor, Toronto, Ontario,

on Tuesday, April 29th, 2014,

commencing at 9:42 a.m.

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VOLUME 1

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BEFORE:

CHRISTINE LONG Presiding Member

CATHY SPOEL Member

MAUREEN HELT Board Counsel

CHRISTIE CLARK Board Staff

JOHN VELLONE Cambridge and North Dumfries Hydro

BRUCE BACON Inc.

JAMES LITTLE

RANDY AIKEN Energy Probe Research Foundation

DAVID MacINTOSH

JAY SHEPHERD School Energy Coalition (SEC)

MICHAEL JANIGAN Vulnerable Energy Consumers' Coalition (VECC)

ALSO PRESENT:

JANE HALE McDONALD Cambridge and North Dumfries Hydro Inc.

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Tuesday, April 29, 2014

### --- On commencing at 9:42 a.m.

MS. LONG: Please be seated.

Good morning, everyone. Today the Board is sitting on an application filed on October 28th, 2013 by Cambridge North Dumfries Hydro Inc. under section 78 of the Ontario Energy Board Act, seeking approval for changes to the rates that Cambridge charges for electricity distribution, to be effective May 1st, 2014.

The Board assigned this application file number EB-2013-0147. A settlement conference was held in this matter on March 6th and 7th. Cambridge has filed a partial settlement proposal between itself and the registered intervenors on April 3rd, and it's our understanding that the following issues remain unsettled: the level of Cambridge's operating maintenance and administration expenses for 2014; the cost of Cambridge's capital for 2014, specifically with respect to the long-term debt component; the level of Cambridge's other revenues, specifically interest revenue for 2014; the rate design for GS50 to 999 class, specifically with respect to the fixed/variable split; and finally, the accounting treatment of removal costs in 2014 and the treatment of those costs over the historical period.

The Board has reserved its decision on the proposed settlement to allow it to hear submissions on the proposed partial settlement at the commencement of this oral hearing. The Board has approved Cambridge's rates interim as of May 1st, 2014, pending the Board's final decision on this application.

My name is Christine Long, and I will be presiding on this matter. Along with me is my colleague, Cathy Spoel. I will now take appearances.

# Appearances:

MR. VELLONE: Good morning, Ms. Long, Panel. My name is John Vellone, and I am acting as counsel for the applicant, Cambridge and North Dumfries Hydro Inc., and with me today is Mr. Bruce Bacon. As well, I have an articling student here with me, Mr. James Little, who will be working the computers to hopefully get us into the digital age today.

And I would also like to make an appearance for Ms. Jane Hale McDonald, also from Cambridge and North Dumfries Hydro. Ms. McDonald will be observing today.

MS. LONG: Thank you, Mr. Vellone, Mr. Bacon, Mr. Little.

MR. SHEPHERD: Jay Shepherd, School Energy Coalition.

MS. LONG: Mr. Shepherd, thank you.

MR. JANIGAN: Michael Janigan, Vulnerable Energy Consumers Coalition.

MS. LONG: Thank you, Mr. Janigan.

MR. AIKEN: Randy Aiken for Energy Probe Research Foundation. With me is Mr. David MacIntosh.

MS. LONG: Mr. Aiken, Mr. MacIntosh, thank you.

Is there anyone else? I don't think so.

MS. HELT: Maureen Helt.

MS. LONG: Oh, sorry, Maureen Helt.

MS. HELT: Counsel for the Board, and with me I have Christie Clark, who is the case manager on this application.

MS. LONG: Ms. Helt, Mr. Clark.

So before we begin, Mr. Vellone, are there any preliminary issues that you want to raise?

# Preliminary Matters:

MR. VELLONE: In the procedural order, the Panel did request that the parties walk through the proposed settlement agreement. We can deal with that now, if you'd like.

MS. LONG: That would be great. And specifically what the Panel would like you to deal with, we noted that in the partial settlement there were issues that seemed to be contingent on these unsettled issues. So for -- by way of example, the issue of customer engagement was not settled because OM&A was not settled.

So it would be helpful for us if you could take us through the linkages of what is settled and what is not settled.

MR. VELLONE: Certainly. I prepared some remarks this morning to go through exactly that.

MS. LONG: Great. That would be helpful.

MR. VELLONE: Does the Panel have the copy of the settlement proposal which was filed on April 2nd, 2014?

MS. LONG: We do, thank you.

# CAMBRIDGE AND NORTH DUMFRIES HYDRO INC.

# Presentation of the Settlement Agreement by Mr. Vellone:

MR. VELLONE: The proposal represents a partial settlement of the issues in this proceeding. And the parties to the settlement proposal are the applicant, Energy Probe Research Foundation, the School Energy Coalition, and the Vulnerable Energy Consumers Coalition. While Board Staff also participated in the settlement conference, they are not a party to this agreement.

I would like to start first by turning up page 5 of the settlement proposal. And at the top of that page you will see a summary of where the parties were able to reach agreement or not, in respect of the Board's approved issues list.

Specifically, the parties were able to reach full -- complete settlement on seven of the issues, partial settlement on eight of the issues, and no settlement was possible on ten of the issues.

Now, at first glance I would say that partial settlement on eight issues and ten issues unsettled seems like a lot, but it's a little bit misleading, because there are really, as the Board noted in its opening remarks, five key areas of disagreement between the parties.

And from a nomenclature perspective I will do my best in my submissions to refer to areas of disagreements rather than issues. When I say "issues" I will be referring to the Board's approved issues list.

I would ask you to please turn up page 6 of the settlement proposal now for a listing of these five key areas of disagreement.

I will start with the first area, OM&A. Specifically, the parties are not in agreement on the applicant's proposed OM&A costs for the test year.

Now, starting with this area of disagreement is useful, because it illustrates a point, and that point is that, because of the nature of some of the areas of disagreement, more than one issue on the Board's approved issues list relate to that area of disagreement.

So what the parties have done is, to the best of our abilities in the settlement proposal, we have attempted to provide the Board panel with a clear articulation of those issues that we saw were relevant to the area of disagreement.

So for OM&A those issues are all of issues 1 through 6 on the Board's approved issues list. In addition to that, issues 7.1, 7.4, 7.7, and 8.6. But it is my understanding that the parties are really here to seek a determination from this Board Panel in respect of the specific area of disagreement, that being whether or not the applicant's proposed OM&A costs in the test year are appropriate, and I expect through the course of this proceeding you will hear a variety of arguments on how each of these specific issues relate to that specific area of disagreement.

Moving on to the second area of disagreement, the long-term debt component of the cost of capital, this one is a little bit easier, in that it relates to a single issue on the Board's approved issues list; that is, issue 7.5.

Similarly, in respect of the interest component of other revenues, only one issue on the Board's approved issues list relates to this issue 7.6, and that same comment applies for the rate design for the GS greater than 50 class. A single issue on the Board's approved issues list elates to this. It's issue 8.3.

Finally, in respect of the disagreement on the accounting treatment of removal costs, both in the historic period and in the test year, the issues in the Board-approved issues list that relate to this are issues 7.1, 7.2, 9.1, and 9.2.

I would ask you to please now turn up page 5 of the settlement proposal. I am going to move on to speaking to some of the adjustments that are expressly contemplated in this settlement proposal. But I wanted to first draw your attention to the second full paragraph at page 5, which begins:

"According to the guidelines, the parties must consider whether or not a settlement proposal should include appropriate adjustment mechanisms for any settled issue that may be affected by external factors."

The settlement proposal then goes on to say:

"Because this is a partial settlement of some issues, to the extent that issues are interrelated, a number of resulting settled or partially settled issues require further adjustment after the Board makes its determination."

And it goes on:

"These adjustments are specifically set out in the text of the settlement proposal."

My intent this morning is to walk through, again, each of the areas of disagreement, but this time I intend to focus my comments on the specific adjustments which are set out in the text of the settlement proposal as they relate to each area of disagreement.

First, in respect of OM&A, the first area of disagreement, pending a resolution of the OM&A costs for the test year, the applicant would need to flow the final OM&A costs through all aspects of the revenue requirement work form. Specifically, OM&A affects rate base and the resulting working capital allowance. This adjustment is noted expressly in respect of issue 7.1.

In addition, any change in OM&A affects the service requirement and the base revenue requirement on a dollar-for-dollar basis. Issue 7.7 is unsettled largely because of this reason.

This change may also affect tax expenses, and the parties note in the settlement of issue 7.3 that proposed taxes will need to be reviewed at the draft rate order stage for exactly this reason.

Finally, the change also flows through cost allocation and rate design. This is why, in issue 8.2, the parties note that the final revenue-to-cost ratios will be calculated when all issues, but in particular OM&A test year amounts, are determined.

Moving on to the second area of disagreement, the parties did not agree on the applicant's proposed long-term debt costs for the test year, but the parties are in agreement on all other aspects of issue 7.5, specifically capital structure, rate-of-return on equity, and short-term debt costs.

Upon a determination by this Panel of the long-term debt costs, the applicant may need to update its cost of capital calculations to reflect the Board's determination. This calculation will in turn flow through revenue requirement calculations, issue 7.7, and cost allocation and rate design, issue 8.3.

In respect of the third area of disagreement, the interest component of other revenues, the parties have settled on all aspects of the other revenue calculation, with the sole exclusion of the interest component, and pending the Board's determination on this area, other revenues may need to be recalculated to reflect the Board's decision.

This, again, would in turn impact requirement, issue 7.1, and rate design, issue 8.2.

In respect of the fourth area of disagreement, the parties did not agree that the applicant's proposed fixed and variable explicit for the GS greater-than-50 class is appropriate, and upon resolution of this area, the applicant will establish the fixed and variable split for the GS greater-than-50 class in accordance with the Board's decision.

Our assumption is that the fixed and variable split for the GS greater-than-50 class will, whatever it happens to be, continue to ensure that the applicant achieves full cost recovery from that rate class. As a result of this, the Board's resolution of this issue should not have an impact on the settlement as it relates to all of the other rate classes, nor should it have an impact on any other part of the settlement proposal.

Finally -- and this is probably the one that brings the most questions -- in respect of the removal cost issue, the parties did not agree that the applicant's proposal to record removal costs in the test year as the depreciation amortization expense, rather than as capital, is appropriate.

What is important to understand upfront is that the parties generally agree that removal costs need to be recorded somewhere. It is really a question of whether it gets recorded as an expense or as capital.

This is reflected in the settlement proposal that's been filed before the Board. If the Board agrees with the applicant that removal costs should be recorded as an expense, no changes to the resulting settlement are necessary. However, if the Board determines that removal costs should be recorded as capital, not as an expense, the settlement proposal includes an explicit adjustment to allow for this change to happen.

Specifically, rate base would increase by the amount of the removal costs, and all calculations emanating from rate base would be adjusted accordingly.

Similarly, depreciation and amortization expenses would be decreased by the amount of removal costs, and all calculations emanating from those calculations would be adjusted accordingly.

These amounts will ultimately flow through to service revenue requirement and base revenue requirement.

In addition, the parties did not agree on the treatment of the applicant's inclusion of removal costs during the historic period in Account 1576. This matter is a little bit simpler, in that if the Board determines that the removal costs in Account 1576 is not appropriate, then the credit balance in that variance would simply be adjusted accordingly.

So far I have focussed my comments on how the unsettled areas of dispute relate back to the settled areas of dispute, and I focus primarily on two areas I thought the Panel might have questions about the settlement proposal.

I will speak briefly to the settled issues, knowing that the Panel hasn't yet adopted the settlement proposal.

So what is it that got settled? The parties were able to reach settlement on capital costs for the test year; that includes a partial settlement of issues 1.1 and 4.3 and a full settlement of issue 7.1, subject to adjustments.

Parties were also able to settle depreciation and amortization expense, specifically in respect of issue 7.2, again subject to the adjustments noted in the proposal.

Similarly, the parties were able to settle proposed taxes, issue 7.3, capital structure, ROE and short-term debt cost, issue 7.5, all other revenues except the interest component, issue 7.6, load forecast, issue 8.1, cost allocation, issue 8.2, rate design including the fixed and variable split for all classes except GS greater-than-50, issue 8.3, total loss adjustment factor, issue 8.4, other rates and charges including the retail transmission service rate, issue 8.5, and all aspects of issues 9.1 and 9.2 with the exclusion of the removal cost issue.

Throughout the settlement proposal, the parties have provided detailed rationale to explain how the settlement was reached, as well as cross-references to supporting evidence as well.

All of the parties to the settlement agreement expressly agree that the settlement proposal provides rationale and evidence sufficient to allow this Board Panel to accept the settlement proposal in respect of all fully settled and partially settled issues.

It is our submission that the Board should accept the partial settlement that is proposed, subject only to the explicit adjustments that are noted in that settlement proposal, which I have just walked you through this morning.

It is our submission that this will have the effect of narrowing the scope of issues to be heard at this oral phase of the proceeding.

Those are my comments.

MS. LONG: Thank you, Mr. Vellone. We have a few questions for you.

Ms. Spoel?

# Questions by the Board:

MS. SPOEL: Yes. I am just -- I guess when I look at -- take for example 1.1. This is an easy place to start in the settlement agreement. And when I read the paragraph that says:

"Because the parties are not in agreement that the applicant's proposed OM&A and long-term debt costs for the test year are appropriate, the parties do not agree that the applicant's asset management planning as outlined supports the appropriate management."

I guess my question is: Isn't it a bit of a chicken and egg? You may not be able to answer this. I understand that this might not be Cambridge and North Dumfries' issue; it is probably someone else's. But from the point of view of our trying to understand what is still in dispute, I would have thought that the planning -- that the OM&A flows from the planning and not vice versa.

If you agree that the plan is appropriate, then presumably the costs to implement the plan would flow from that, rather than saying: Well, we don't agree with the costs. Therefore we are not going to approve the plan.

I guess that's where I can't understand from reading this whether the issue is with the planning, or whether the issue is with the -- just the cost to implement the plan. So it is a bit puzzling for us, and there are a number of those. You know, you don't agree the customer engagement activities are appropriate because you don't like the OM&A that I guess maybe flows from it. I don't know.

So maybe somebody could help us with that. What is the real issue? The actual planning, or the costs that would appear to be required to implement those plans? Or am I missing the boat entirely?

MR. SHEPHERD: I am happy to jump in, Ms. Spoel.

MS. SPOEL: Thank you.

MR. SHEPHERD: I am not sure I am speaking for all of the intervenors, but they will jump in and correct me if I am wrong, I'm sure.

There's a difference between saying the planning process is good -- and I think we generally agreed that this utility has followed a good process for their planning. But that doesn't mean that the result is right.

That means that they had all the appropriate process steps. They approached it in the right way, things like that, but you can still get the wrong answer using the right process.

And we don't agree on the answer, because in one way you build it up from the bottom -- asset plan is a good example. You build it up from the bottom, but in another way you still have to benchmark it from the top and say: Is this a reasonable result? Does that make sense?

And so if you can't get to both, you can't say the overall plan is a good plan. You can say you approached it the right way, but you can't say you ended up with a good plan.

MS. SPOEL: So when the agreement says, Because the parties are not in agreement that the proposed OM&A and long-term debt costs are appropriate, we don't agree with the plan; so what you're saying is, We like the process, but because it is going to cost too much we don't agree it is a good result, I mean, is that what I -- is that what we should read from that, because it is the "because" -- it is the "because we're not in agreement on OM&A we can't agree on the plan", I guess that is what causes us a little bit of -- or me -- I should speak for myself -- that is what causes me a little bit of unease about understanding what the real issue is. And maybe it will all become clearer when we hear from the witnesses, but I just...

MR. SHEPHERD: That may be an unfortunate wording, because "because" suggests that there is a causal relationship. We didn't agree on the number; therefore, your plan must be bad.

MS. SPOEL: Right. That is what it seems to read. And maybe we've got it wrong, or --

MR. SHEPHERD: I think what that is intending to say -- and Mr. Vellone can correct me; we sort of all drafted it together, right -- is that the reason why we can't say we've agreed on the plan is because we didn't agree on the result. We didn't agree on what came out of it. And therefore, we know that there are components of it that are -- that we're not happy with, but that doesn't mean that you approached it wrong. You are trying. You didn't get it perfect.

MS. LONG: So Mr. Shepherd, is that the same for -- if we use another example, let's say the customer engagement, you were happy with that, but perhaps the expenses, which you might talk about when you question OM&A, that is the issue? But the overall process you are in agreement with?

MR. SHEPHERD: Well, customer engagement is actually even a better example, because on the one hand how you talk to your customers and ensure that you understand what they want from you is an important issue, and particularly in a transition year, where the Board is moving to a new paradigm. Cambridge has done that reasonably well.

But that is not the same as taking the next step and saying, The customers want this result. The customers want us to spend another 25 percent on OM&A. We don't agree that that is what the customers say, and so that's the implication of the issue.

So we can't agree to the issue because of that implication. Talking to your customers is not the same as them agreeing with your application.

MS. LONG: Understood.

So Mr. Vellone, did you have any other comments, or Mr. Shepherd has characterized that correctly?

MR. VELLONE: I think I don't disagree with how Jay has characterized the wording here. The "because" was really intended to signal to the panel the relationship between the issue in the area of disagreement and express intent, rather than, I suppose, a causal --

MS. LONG: Thanks. That's helpful.

I did have one question about issue 4.3 related to a partial settlement dealing with capital projects. And it looks to me that $2.6 million of projects are being deferred. I am wondering if you are able to provide us with a little bit of explanation and comfort that that will not have a negative impact on reliability, which is something we saw a lot of discussion about in the evidence filed by Cambridge. Mr. Vellone?

MR. VELLONE: Certainly. I think, actually, what I might propose is that we wait until we swear our witness panel. Mr. Ron Sinclair is the vice-president of engineering, and if you would like to put that question directly to him --

MS. LONG: That's fine.

MR. VELLONE: Yes?

MS. LONG: That's fine.

So barring that, I don't think that we have any further questions on the settlement proposal. The intervenors, I am assuming, have nothing to add, given Mr. Vellone's presentation? I'm seeing heads nodding.

So what we propose to do is -- oh, Board...

MS. HELT: Madam Chair, Board Staff does have a very brief submission with respect to the partial settlement, and it is in support of a partial settlement.

MS. LONG: Okay. We will hear from you then.

MS. HELT: At the appropriate time.

MR. SHEPHERD: Is your mic on?

MS. HELT: The green light is on. Is that better? Yes.

MS. LONG: Yes

MS. HELT: Okay. Thank you. Board Staff has reviewed the partial settlement proposal in the context of the objectives of the renewed regulatory framework for electricity, as well as all of the other applicable Board policies, relevant Board decisions, and the Board statutory obligations.

While the parties considered the issues and Cambridge's planning in the limited context of the test year, Board Staff is of the view that the partial settlement proposal reflects a reasonable evaluation of the distributor's planned outcomes in this proceeding within the context of the issues settled.

This is the first year of implementation for the RRFE, as has been stated previously, and Board Staff took this into consideration when making its own assessment of the settlement proposal.

Overall, Board Staff submits that the Board's approval of the partial settlement proposal as filed would adequately reflect public interest and would result in just and reasonable rates for customers within the context of the issues settled.

Thank you, Madam Chair.

MS. LONG: Thank you.

So what we propose to do is consider later on in our -- at our morning break whether or not the settlement proposal is acceptable, given the comments and explanation that we have received this morning.

So I would ask, Mr. Vellone, that you proceed. I believe you have some direct for your panel. So perhaps you could introduce them, and we will arrange to have them affirmed.

MR. VELLONE: Certainly. Maybe we can take care of one process issue just to begin with.

MS. LONG: Sure.

MR. VELLONE: On Friday of last week I circulated two documents. The first is titled "witness CVs and proposed panels".

MS. HELT: Madam Chair, I believe you were provided with a copy on the dais of that document.

MS. LONG: We have that, thank you.

MR. VELLONE: Maybe we can get that marked as an exhibit.

MS. HELT: We can mark that as Exhibit K1.1, witness CVs and proposed panels.

EXHIBIT NO. K1.1: DOCUMENTS ENTITLED "WITNESS CVs AND PROPOSED PANELS".

MR. VELLONE: Thank you very much.

Madam Chair, you will notice that on the proposed panels the applicant is proposing two separate panels, one to deal with the first four categories of issues, and a separate panel to deal with the removal-cost issues.

However, we have had discussions both with Board Staff and with the intervenors this morning, and it became clear to us that they would prefer to deal with all of the issues on one panel. Since panel 2 is a subset of panel 1, we have no problems with that.

MS. LONG: That's fine.

MR. VELLONE: Okay. Witnesses, would you please go before the Board to be affirmed, please?

MS. SPOEL: You don't actually -- now that we don't use Bibles and things any more, you don't actually have to come forward. You can stay where you are, and we can do it from there.

But if we could just start at this end.

# CAMBRIDGE AND NORTH DUMFRIES HYDRO INC. - PANEL 1

**Ron Sinclair, Affirmed**

**Sarah Hughes, Affirmed**

**Ian Miles, Affirmed**

**Grant Brooker, Affirmed**

# Examination-In-Chief by Mr. Vellone:

MR. VELLONE: Please be seated.

Can I ask that each of the witnesses please state and spell your full name for the benefit of the transcript and the record.

MR. SINCLAIR: Ron Sinclair, R-o-n S-i-n-c-l-a-i-r.

MR. VELLONE: Thank you.

MS. HUGHES: Sarah Hughes, S-a-r-a-h H-u-g-h-e-s.

MR. MILES: Ian Miles, I-a-n M-i-l-e-s.

MR. BROOKER: Grant Brooker, G-r-a-n-t B-r-o-o-k-e-r.

MR. VELLONE: Thank you very much.

CVs have been distributed to all of the parties and marked as Exhibit K1.1. I am just going to spend a brief moment introducing each of the witnesses.

Mr. Miles, I understand you are the president and CEO of Cambridge and North Dumfries Hydro, and you have been in that position since 2012; correct?

MR. MILES: That's correct.

MR. VELLONE: And your CV is included in Exhibit K1.1?

MR. MILES: Correct.

MR. VELLONE: Prior to your current position, you had been an executive officer at a few other LDCs or their affiliates; correct?

MR. MILES: That's correct.

MR. VELLONE: And you have education in business and management?

MR. MILES: Correct.

MR. VELLONE: Including a master's of business administration?

MR. MILES: Correct.

MR. VELLONE: What was your responsibility for the application?

MR. MILES: So I was responsible for overseeing the overall preparation of the application, and ultimately am accountable for the entire application.

MR. VELLONE: Thank you very much.

Ms. Hughes, I understand that you are the chief financial officer of Cambridge and North Dumfries Hydro; correct?

MS. HUGHES: Yes, that's correct.

MR. VELLONE: And your CV is also included in Exhibit K1.1?

MS. HUGHES: Correct.

MR. VELLONE: Now, I understand you have been in your current position for just over a year; is that right?

MS. HUGHES: That's correct.

MR. VELLONE: And prior to this, you were employed at a similar position in another utility?

MS. HUGHES: Yes. That's correct. I was vice president of finance with Horizon Utilities Corporation.

MR. VELLONE: Thank you.

And I understand you are a chartered professional accountant with a background in business?

MS. HUGHES: Yes, that's correct.

MR. VELLONE: And you hold a master's degree in accounting from the University of Waterloo?

MS. HUGHES: Correct.

MR. VELLONE: And you are also a member of the Institute of Internal Auditors?

MS. HUGHES: Yes, that's correct.

MR. VELLONE: And what was your responsibility for preparing the application?

MS. HUGHES: So, like Ian, I oversaw the preparation and have overall accountability for this application.

MR. VELLONE: Thank you very much.

Mr. Brooker, I will move to you now. I understand that you are the manager of regulatory affairs at Cambridge and North Dumfries Hydro; is that correct?

MR. BROOKER: Yes, that's correct.

MR. VELLONE: And your CV is also included in Exhibit K1.1?

MR. BROOKER: It is.

MR. VELLONE: And you have been with Cambridge and North Dumfries Hydro since 2011?

MR. BROOKER: I have.

MR. VELLONE: Prior to this, you worked for almost 20 years at various LDCs; is that correct?

MR. BROOKER: Yes, that's correct.

MR. VELLONE: And you are also a chartered professional accountant?

MR. BROOKER: Yes, I am.

MR. VELLONE: And what was your responsibility for this application?

MR. BROOKER: Overall responsibility for the application, but primarily related to the regulatory aspects of the application.

MR. VELLONE: Thank you very much.

Finally, Mr. Sinclair, I understand you have been with Cambridge and North Dumfries Hydro since 1986; is that correct?

MR. SINCLAIR: Yes, that's correct.

MR. VELLONE: And your CV is included in Exhibit K1.1?

MR. SINCLAIR: Yes, it is.

MR. VELLONE: During this employment period, you have held a variety of positions with Cambridge and North Dumfries Hydro; correct?

MR. SINCLAIR: Correct.

MR. VELLONE: Are you having a hard time hearing?

Could I ask you to speak directly into the microphone? Thank you.

I will repeat the last question for the benefit of the transcript. During this period of employment, you have held a variety of positions with Cambridge and North Dumfries Hydro?

MR. SINCLAIR: Yes, that's correct.

MR. VELLONE: Currently you are the vice president of engineering?

MR. SINCLAIR: Yes, I am.

MR. VELLONE: You are a professional engineer; correct?

MR. SINCLAIR: Yes, I am.

MR. VELLONE: You hold a bachelor's degree in applied sciences, electrical engineering from the University of Waterloo; correct?

MR. SINCLAIR: Yes, I do.

MR. VELLONE: What was your area of responsibility for the application?

MR. SINCLAIR: All aspects of the application that dealt with asset management, and in particular, preparation of the distribution system plan.

MR. VELLONE: Thank you very much.

Now, members of the panel, was Cambridge and North Dumfries Hydro's application prepared by you or under your supervision?

MR. SINCLAIR: Yes.

MS. HUGHES: Yes.

MR. MILES: Yes.

MR. BROOKER: Yes.

MR. VELLONE: And do you adopt the application as your own evidence in this proceeding?

MR. SINCLAIR: Yes.

MS. HUGHES: Yes.

MR. MILES: Yes.

MR. VELLONE: Do you also adopt the interrogatory responses filed in this proceeding as your evidence?

MR. SINCLAIR: Yes.

MR. MILES: Yes, we do.

MR. VELLONE: Finally, there is some additional evidence that was attached to the settlement proposal, and just for the sake of completeness, do you also adopt that additional evidence as your evidence in this proceeding?

MR. SINCLAIR: Yes.

MS. HUGHES: Yes.

MR. MILES: Yes.

MR. VELLONE: Are there any corrections you would like to make to the evidence?

MS. HUGHES: Yes. In addition to the reduction in OM&A of 117,600 as a result of benefit savings realized by CND for the 2014 test year, as outlined in response to Interrogatory VECC 7.4-32(c) and (d) would make a further adjustment to OM&A as follows.

A reduction in OM&A of 59,245, representing the portion of a third-party contract that relates to the sync operator function. As outlined in Exhibit 4, tab 4, schedule 2 of the 2014 application, C and D had recorded the salary and benefit costs of a new full-time sync operator to replace a third-party contract.

CND inadvertently did not reduce the third-party contractor costs in the 2014 test year.

As an outcome of the settlement agreement, in particular with respect to CND's 2014 capital expenditure program, CND has identified a reduction to removal costs of approximately 89,759 with respect to the test year.

This reduction arises from CND deferring $2.6 million in capital projects in the test year, of which the majority of these projects would be rebuild projects involving removal costs.

As CND has recorded removal costs as amortization expense, this adjustment results in a reduction of the requested 2014 amortization expense of 89,759.

MR. VELLONE: Thank you very much.

Now, it is my understanding that the witness panel has prepared a brief opening statement specifically in respect of the OM&A issue in dispute.

We have also filed on Friday some prefiled evidence in respect of the removal cost issue, and I understand that the witness would like to walk the panel through that latter filing today. And maybe mark it as an exhibit?

MS. HELT: I believe, Panel, you have a copy of that; it was clipped to the witness CVs document. And it is entitled: "Cambridge and North Dumfries prefiled evidence on removal costs."

If we can mark that as Exhibit K1.2.

EXHIBIT NO. K1.2: CAMBRIDGE AND NORTH DUMFRIES PREFILED EVIDENCE ON REMOVAL COSTS.

MR. VELLONE: Thank you.

Mr. Miles, perhaps you can get us started with your comments on the OM&A?

# Opening Statement by Mr. Miles:

MR. MILES: Thank you, John.

Madam Chair, Panel, Board members, I would like to make a few brief remarks to provide some context to our OM&A expenses.

Exhibit 4 of our prefiled evidence contains a good overview of our OM&A costs dating back to the last Board-approved level in 2010.

As this evidence shows, there has been significant increase in OM&A during that time period.

CND is requesting 2014 OM&A, as adjusted, of $15,033,000, which represents about an 8 percent increase over our 2013 actuals.

The evidence also details the key drivers behind these increases, which include the introduction of smart meters, time of use pricing, the associated new systems that go along with that, new licensing and support requirements, new regulatory requirements arising out of the Green Energy Act and the LEAP program, regulatory and IFRS-driven accounting changes, rising wage and benefit costs, and the hiring of certain positions for succession planning.

Many of these drivers will be familiar to you, as they have impacted not just our LDC but just about every LDC in Ontario.

But in addition to these drivers, there are several which are more specific to CND that I would like to highlight, and they pertain mainly to resource gaps that developed in the organization as a transition to the new world of smart meters, time of use billing and the Green Energy Act in the 2010 to 2012 time frame.

These gaps were identified in the fall of 2012 through a well-structured and documented process that involved engagement of the entire management team, our board of directors, and consideration of results of recent customer surveys.

The process started with an enterprise-wide corporate risk review and assessment, and that simply involved identifying key risks that could impact our customers, our employees and the organization. Once these risks were identified, we looked at the mitigation strategies that were in place to manage those risks, and then we determined whether those strategies were adequate or not.

For the cases where we determined that the mitigation strategies were not adequate, we flagged those and we came up with a plan, a priority to address those risks. And those priority items made their way into the 2013-2014, and, in fact, our five-year plan.

So all of what I have been speaking about with respect to the risk assessment process, the analysis and the mitigation strategies have all been filed in evidence. A lot of it is actually under 1.1.SEC-3. I won't go through all of the detail contained in those reports, but I would like to highlight several outcomes from the process that have impacted our OM&A.

The first priority item that was identified was the level of resources in the IT department. The organization in the two years prior to my arrival had just undergone the implementation of two major systems, a CIS billing system and an ERP system.

Those projects were undertaken because -- out of necessity to replace aging systems that could not support time-of-use billing and the transition to IFRS.

The IT department, however, in 2012 was not adequately staffed to support these new systems and the evolving IT requirements of LDCs.

The department, in fact, just had three positions. There was a supervisor and two system administrators. There was also a lengthy backlog of IT-related issues, such as ranging from launching customer-facing applications such as e-billing and e-service solutions through to routine desktop updates of desktop software. There was also no disaster recovery plan in place, other than a backup -- off-site data backup.

The second area of concern was the level of staffing in our system control room. Again, there were only three operators. This meant that coverage was limited to five days a week from 6:00 in the morning 'til 9:30 at night. Outside of those times one operator would be on call every week on a three-week rotating basis.

As a result of this thin level of staffing, there had been a number of instances where the on-call operator came in to work during a weekend and actually timed out after 16 hours of continuous work. This would typically happen during a storm-related incident.

And when this happens, the supervisor or in some cases even our vice-president here of engineering had to be called in to operate the control room so that we can continue with the power restoration efforts.

In addition to the customer service risks associated with this level of staffing, we're also not fully compliant with an IESO requirement which -- with respect to our transmission-connected transformer station.

One of the IESO requirements is that we, upon notice from the IESO, we have to shed load from that station within a five-minute period. Our response time during after-hours when the control room is not staffed is at best about 20 minutes.

Now, the IESO, by the way, is aware of this, and to date they have allowed us to continue to operate in this way.

But having said that, we're forecasting a requirement to construct a second transmission-connected station to support growth in the north end of Cambridge sometime in the next four- to five year-planning horizon. A decision was therefore made to hire three additional control-room operators and move to a 7/24 schedule.

Now, hiring qualified journeymen to operate control rooms in Ontario is almost impossible. It is very challenging. The only real viable method of staffing up is to hire apprentices and support them through a three- to four-year training program, so we have started that process, but it will be another three to four years, as I said before, they will -- before we will be able to move to a 7/24 control room.

Succession planning was also identified as a risk to the organization and potentially our level of customer service. Like many other LDCs, we will see up to one-third of our skilled trade employees being eligible to retire in the next five years.

Many of these positions, such as power-line technicians and the control-room operators that I just spoke about, require a three- to four-year apprenticeship training program. So in these cases we need to recruit at least three years in advance of the anticipated retirements.

Finally, I just want to conclude by saying that our management team and our Board are keenly aware of how OM&A growth impacts customer rates. We reviewed each of these decisions in the context of the customer, either from the perspective of improving service or mitigating risk or both.

We also benchmarked the outcomes of these decisions, mainly with respect to rates, OM&A per customer, and employees per customer. And in all cases, as our evidence shows, we are comparable to our immediate LDC neighbours and other LDCs of similar size.

Thank you.

MR. VELLONE: Thank you very much, Mr. Miles.

Ms. Hughes, I understand that you also have some initial comments about the final unsettled issue; that is, the accounting treatment of removal costs. And in this regard there was a document circulated at Exhibit K1.2.

Ms. Hughes, would you like to briefly speak to the removal-cost issue?

# Opening Statement by Ms. Hughes:

MS. HUGHES: Yes, thank you.

Panel, I would like to briefly walk you through the rationale for CND's accounting treatment of removal costs, and will refer to specific sections in Exhibit K1.2.

For the balance of my remarks, when I refer to the exhibit, I mean Exhibit K1.2. Perhaps I could ask you to turn to that exhibit now. It is not my intent today to go through the entire document. I will limit myself to summary remarks.

As noted on page 1 of the exhibit, and as we described in our application, CND revised its capitalization policies under Canadian GAAP effective January 1st, 2012. CND undertook this change in 2012 in accordance with the Board's regulatory accounting requirements to align its capitalization policies by distributors in accordance with international financial reporting standards.

Specifically, in the July 17th, 2012 letter to the LDCs, which is marked as appendix A in the exhibit, the Board provided the regulatory accounting policy direction to LDCs on matters arising from the one-year deferral option of the IFRS changeover in 2012.

Perhaps it would be helpful to go to appendix A. Specifically, I am referring to page 2 in the letter, which is in the second full paragraph under the heading "regulatory accounting policy direction regarding changes to the depreciation expense and capitalization policies".

About midway through that paragraph -- I am quoting here:

"The Board encourages and will permit distributors that have deferred the changeover in 2012 to also implement regulatory accounting changes for depreciation expense and capitalization policies effective on January 1st, 2012."

Lower in the same paragraph, the letter further provides that -- and I am quoting again:

"These accounting changes should be implemented consistent with the Board's regulatory accounting policies as set out for modified IFRS as contained in the report of the Board, 'Transition to International Financial Reporting Standards', EB-2008-0408, the Kinetrics report, and the revised 2012 Accounting Procedures Handbook for Electricity Distributors."

As CND had substantially completed its IFRS conversion project with respect to property, plant, and equipment, CND implemented the changes to its depreciation and capitalization policies effective January 1st, 2012, in compliance with the Board's letter.

Most relevant to today's discussion is CND's policy with respect to removal costs.

If I turn back to page 1 of the exhibit, on line 18, it states that:

"Costs incurred to remove an existing asset from service are to be expensed and are no longer eligible to be included in the capital cost of the new asset."

Prior to January 1st, 2012, CND included labour, vehicles, and materials in the capital cost to construct an asset as part of the overall capital project costs.

In transitioning its capitalization policies to align to regulatory accounting requirements and ultimately the adoption of IFRS, CND determined that removal costs would not meet the criteria for capitalization and therefore would be expensed.

I would refer the panel to page 2, line 7 of the exhibit. Under IAS 16.16, which is the IFRS accounting policy:

"The cost of an item of property, plant, and equipment under IFRS is defined to include any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management."

CND's view is that in its specific factual circumstances the costs associated with removing distribution system plant are not considered to be directly attributable to the construction of the new asset. Removing old plant is a separate activity from the installation of the new plant.

Nor are these costs incurred to bring the asset to the location or condition necessary for it to be capable of operating. Therefore, these costs are not eligible to be capitalized under CND's capitalization policy and should be expensed.

So what does this mean in practice? In supporting its view, CND would use the following scenario to illustrate the point. If you would like to follow along on page 3 of the exhibit, starting at line 9:

"As part of a road relocation project, CND is required to relocate a line of poles and wire in a particular area. The Franklin Boulevard road relocation project is a good example of this type of project. As part of this project, CND will relocate and install new overhead triple-circuit and double-circuit 27.6 kV lines, as well as the installation of new poles, as the existing poles date back to the 1970s and have proven too weak to withstand major storms."

CND will install a new line of poles and wires in a different location as a result of the road relocation, and while this is not set out in the exhibit, it is important to note that sequencing is important.

It is my understanding, based on discussions with our engineering department, that in practice, the new distribution plant will be entirely constructed and ready to energize prior to CND incurring any removal costs related to the dismantling of the old distribution plant.

This is done to ensure that customers are still connected and receiving power, and that any disruption to service as a result of the project is minimized. Only once the customers are connected to the new lines is it at that time that CND would remove the existing poles and wires.

This would also be the case with other rebuild projects that CND is undertaking in the test year.

The new distribution plant will be constructed, the customer connected to the new plant, and then the removal of the old plant will commence.

With both of these illustrations, it is CND's view that the removal of the old plant is not required to bring the new asset to the location and condition necessary for it to be capable of operating, and therefore such costs are not eligible for capitalizing under IFRS.

CND's capitalization policy has been reviewed and confirmed by our external auditors, KPMG LLP.

Removal costs incurred by CND in 2012 and 2013 have been expensed in its audited financial statements.

CND provided a copy of its financial statements for the year ended December 31st, 2013 in response to Interrogatory 7.1.SEC.40.

CND's capitalization policy is disclosed in 1(g), significant accounting policies.

If you could also turn up the exhibit at page 4, line 12, CND also provided a reference to KPMG's report to the Ontario Energy Board, a report on the transition to International Financial Reporting Standards, dated March 4, 2009.

In that report, KPMG highlighted for the Board the accounting difference that would exist under IFRS, and that removal costs would have to be recorded as an expense when incurred.

In this context, in its application as amended by the corrections I noted earlier, CND will incur 716,449 in removal costs for material capital projects in 2014. These removal costs will be incurred due to the removal and dismantling of existing distribution plant as a result of a significant road relocation project and the removal of distribution assets from service.

I would like to briefly touch on the impact on Account 1576, so if we could turn to page 8, line 22 of the exhibit.

CND has recorded 330,000 and 639,000 in Account 1576 in respect of removal costs for the fiscal years 2012 and 2013 respectively.

Such amounts represent the financial difference in the amounts for property, plant and equipment in each of those years, between the amounts that would have been recorded under the old capitalization policy, versus nil under the new capitalization policy.

As CND had previously capitalized removal costs as part of the cost of its new asset, and no longer capitalizes such costs, this represented a change in capitalization policy in accordance with the Board's regulatory accounting policy, and therefore qualifies for Account 1576 treatment.

Such accounting treatment has also been recorded in -- recognized in CND's audited financial statements for the years ended 2012 and 2013 as part of its regulatory asset and liability accounts.

MR. VELLONE: Thank you very much.

That concludes our opening statements. The panel is available for cross-examination.

MS. LONG: I think what we will do, given the hour, is we will take our break now and then we'll start with Mr. Aiken with his cross-examination.

I would, however -- while the panel is here and because we are going to consider the settlement proposal over the break, I would like an answer to my question with respect to the deferral of capital projects, and I believe it was Mr. Sinclair, that you were tagged with answering that question for us.

# Questions by the Board:

So just to rephrase the question, I am interested in understanding the proposal that there will be $2.6 million in capital projects deferred. I wonder if you could provide us with a little bit of detail about those projects being deferred. And we're looking for some comfort that that would not pose any problems with respect to reliability for your customers.

MR. SINCLAIR: Yes. And we went through the projects in detail to see which projects we could reasonably defer, primarily into 2015.

As part of the preparation of the Distribution System Plan for all of the projects that had been identified for proceeding in 2014, we put a priority level on them. So starting with priority 1 projects, which were must-do projects in terms of, primarily, for system access, for connecting new customers or where we had to relocate plant for road relocations, and then we continued down the list in terms of priorities.

So the projects, for instance, on the rebuild side where we're replacing old plant, the higher-priority ones were still proceeding with in 2014, as per the settlement proposal.

What we did was delay some of the rebuild projects, primarily, that we wanted to do in 2014, but we felt that we could reasonably defer until 2015.

And we went through each project in detail and we have identified each project based on a list, and we have also noted in the settlement proposal that individual projects may be adjusted by CND as priorities unfold -- and that is on page 9 -- because we wanted to keep open the discretion that we will keep the total capital spending as per the settlement proposal, but if conditions warrant, we will make adjustments to specific projects as necessary if we have to, as the years unfold.

MS. LONG: Thank you.

Did the intervenors have any comments on that?

MR. SHEPHERD: Madam Chair, just because I know you are going to consider this answer in the break, I wonder if I could ask a follow-up question.

MS. LONG: That is why I am asking, because we are going to consider it. So I want everyone to ask their questions now.

# Questions by Mr. Shepherd:

MR. SHEPHERD: Thank you.

Mr. Sinclair, when you originally prioritized the projects in your distribution system plan, that was not so that you would be prepared for ADR, right?

That was because during the course of the year, you have to shift around your capital plan as events unfold, right?

MR. SINCLAIR: Yes. We often have to shift around projects, but we also, as part of our asset management process that's described in the Distribution System Plan and in response to some interrogatories, we clarified that we also potentially have to shift from year to year, as things unfold.

So it is helpful going in to have the priority levels defined, so that if adjustments have to be made, we have the numbers there on which projects and what the dollar impact is that may have to be postponed.

MR. SHEPHERD: And when you do your plan, you have some projects that are essentially inflexible? You are not really going to be able to say: We don't want to do this right now. You're going to have to do it, right?

MR. SINCLAIR: That is correct.

MR. SHEPHERD: But you have also a whole gradation of more and more flexible projects, depending on the nature of the project and how things happen during the year, right?

MR. SINCLAIR: Yes, that is correct.

MR. SHEPHERD: This is no different than in other years?

MR. SINCLAIR: No, it is no different to other years. That's correct.

MR. SHEPHERD: Thank you.

MS. LONG: Thank you, Mr. Sinclair.

So we will break and come back at 11 o'clock.

### --- Recess taken at 10:41 a.m.

### --- On resuming at 11:01 a.m.

# Acceptance of the Settlement Agreement

MS. LONG: Please be seated.

The panel has taken a look at the settlement proposal in light of the presentation made today and the comments that we've heard, and we are prepared to accept it.

So with that being said, Mr. Aiken, you can continue with -- or commence your cross, please.

## Cross-Examination by Mr. Aiken:

MR. AIKEN: Thank you, Madam Chair. I am going to start with the issue of the removal costs. First of all, I have a compendium, so we should get that filed with a number.

MS. HELT: Yes. I believe the panel -- you have a copy of the compendium from Energy Probe? We will mark that as Exhibit K1.3.

EXHIBIT NO. K1.3: Cross-Examination COMPENDIUM FROM ENERGY PROBE.

MS. LONG: Thank you.

MR. AIKEN: So if I could ask you to turn up pages 1 through 4 of the compendium. This is interrogatory 9.2, Staff 39, part (a), I believe. Yes, part (a).

This response indicates that the update was based on unaudited actuals for 2013. Can you provide an updated Table 9-10 and appendix 2-ED as filed in the response to reflect actual audited 2013 data, if there was a change?

MS. HUGHES: I can confirm that there was no change. These numbers are reflected in our audited financials.

MR. AIKEN: Okay. Then could you provide an update to tables 9.9, 9.10, and appendix 2-ED, but removing the removal costs in the calculation? So in other words, if the Board said no to the inclusion of the removal costs in 2012 and '13, could you provide the calculations on what Account 1576 would have in it?

MS. HUGHES: Yes, we could provide that.

MS. HELT: We will note that then as Undertaking J1.1, to provide a revised 9.9, 9.10, and 2-ED, removing the removal costs in the calculation.

UNDERTAKING NO. J1.1: TO PROVIDE A REVISED 9.9, 9.10, AND 2-ED, REMOVING THE REMOVAL COSTS IN THE CALCULATION.

MR. AIKEN: Based on the explanation Mr. Vellone gave this morning of what changes in the settlement agreement, I take it that if the Board were to determine that removal costs should not be included in the calculation of Account 1576, then the 2012, '13, and '14 removal costs would be included in the calculation of rate base; is that correct?

MS. HUGHES: That is correct.

MR. AIKEN: What happens if the Board agrees with your accounting treatment in 2014, which I understand is -- the 716,000, I think the number is now -- is shown as a depreciation expense? If the Board agrees with that, but if Board does not agree with the inclusion of the 2012 and '13 numbers in Account 1576 and says that they should not be included in rate base, are you requesting the recovery of that, essentially a million dollars, for 2013 and '12?

MS. HUGHES: So I believe the settlement agreement recognizes that the amount for 2012-2013 would be included in capital expenditures. So we would adjust Account 1576 in terms of the amount to be disposed of as part of the regulatory variance account, but in the settlement agreement it proposes that the 2012 and 2013 amounts would be added to rate base and then subsequently a depreciation calculation taken on those assets.

MR. AIKEN: So there would be no scenario where you would be essentially stuck with a million dollars in expenses that you couldn't recover?

MS. HUGHES: No, that's correct.

MR. AIKEN: Okay. Now, the updated number you gave this morning for the test years, I scribbled down 716,000, in that neighbourhood. Now, that is still a significant increase from the 330,000 you recorded in 2012.

Am I correct in saying that these values are driven by specific projects each year?

MS. HUGHES: Yes, that is correct.

MR. AIKEN: So if you look at the project shown in the response to 9.2, Staff 40(d) -- this is pages 5 and 6 of the compendium, where you list all the projects of the 2013 and '14 year -- what stands out to me is that there are two projects that account for nearly one-half of this estimate, those being the Franklin Boulevard and Greenfield Road.

With your updated number of 716,000, is that still the case that you have two projects that account for approximately half of these costs?

MS. HUGHES: Yes, that would be the case.

MR. AIKEN: And are these removal costs for projects shown in this answer all related to relocations?

MS. HUGHES: Yes, so perhaps I will let Ron go through the projects.

MR. SINCLAIR: No. Not all of these projects involve relocations. Some of them are rebuild projects, where we have to remove the old plant.

MR. AIKEN: So your plan -- or your accounting to expense is not strictly related to relocations, but if you are incurring costs to rebuild on the same site, you are not capitalizing those costs either?

MS. HUGHES: That's correct. We are not.

MR. AIKEN: Could you provide a breakdown of the 716,000 between relocation and rebuild on same-site costs?

MS. HUGHES: Yes, we can.

MS. HELT: That will be Undertaking J1.2.

UNDERTAKING NO. J1.2: TO PROVIDE A BREAKDOWN OF THE $716,000 BETWEEN RELOCATION AND REBUILD ON SAME-SITE COSTS.

MR. AIKEN: Ms. Hughes, I understand from what you indicated this morning that the removal costs are typically incurred after the new facilities are built and put into service; is that correct?

MS. HUGHES: That is my understanding, but Mr. Sinclair can provide any clarity for that.

MR. AIKEN: It makes sense to me.

MS. HUGHES: Yes.

MR. AIKEN: Sure, okay.

Would you agree that the 2014 amount is extremely sensitive, not only to each specific project that's in this list, but also to the timing of the completion of each project?

MS. HUGHES: So I would say it is sensitive, but I would also acknowledge that there are, as we discussed earlier, times when other capital projects may also come in that perhaps could involve removal costs.

So based on the projects that we have here, I would say, yes, it is always sensitive to when the project is complete.

MR. AIKEN: Would Cambridge be receptive to the use of a variance account around the removal costs due to the sensitivity? And given this is a fairly new forecasting item you are doing?

[Witness panel confers.]

MR. MILES: Yes, we would.

MS. HUGHES: I think we would.

MR. MILES: Yes.

MR. AIKEN: Does Cambridge have any forecast for 2015 through '18 associated with relocation costs at this time?

MS. HUGHES: Yes, it would. I don't know the number specifically.

MR. SINCLAIR: Yeah, I don't have the number specifically at the top of my head, but, yes --

MR. AIKEN: Do they vary substantially year to year in your forecast?

MR. SINCLAIR: Yes, they vary chiefly by the number of relocation projects and the number of rebuild projects.

MR. AIKEN: Would you undertake to provide what those forecasts are?

MR. SINCLAIR: Yes, we can do that.

MS. HELT: So Undertaking J1.3, to provide a forecast of the relocation costs for 2015 through to 2018.

UNDERTAKING NO. J1.3: TO PROVIDE A FORECAST OF THE RELOCATION COSTS FOR 2015 THROUGH TO 2018.

MR. AIKEN: I am moving on to my second topic now, which is financing and the other revenue interest.

When I look at the evidence in Exhibit 5, tab 4, schedule 1 -- I don't think you need to pull it up -- I see that your actual level of long-term debt is about 38 million for the test year, and it's been at that level since at least 2010; is that correct?

MR. BROOKER: Yes, that's correct.

MR. AIKEN: Would I also be correct that that represents about 29 percent of your 2014 rate base?

MR. BROOKER: Without looking at it, it seems to be within the range, yes.

MR. AIKEN: In the revenue requirement work form included in the settlement agreement, the deemed long-term debt amount, which is 56 percent of your rate base, is about 73 million.

So you have a shortfall in actual debt compared to deemed long-term debt of about 35 million, if my calculations are correct.

And I asked you in an interrogatory at 7.5, Energy Probe 30 -- which is at pages 7 through 10 of my compendium -- I asked you why you were not forecasting any incremental long-term debt.

Your response to parts (b) and (c) indicated you would finance the increase in rate base in 2014 with existing cash and cash equivalents, cash flow from operations and the operating line of credit.

I seem to recall somewhere -- and I couldn't find it, but your line of credit is around 8 million; is that right?

MS. HUGHES: That's correct.

MR. AIKEN: How much of this will be used in 2014 to finance your growth in rate base?

MS. HUGHES: I believe the cash flow that we provided as part of the budget materials -- and I know that's a response to an SEC, but I can't recall the number -- I believe the forecast had bank indebtedness of approximately 4.7 or 4.8 million.

MR. AIKEN: Okay. Then what happens if Cambridge has a need to draw on this line of credit in excess of the amount left on the line in 2014?

MS. HUGHES: So we're currently not anticipating that.

MR. AIKEN: But what would happen if you did?

MS. HUGHES: Well, we would certainly ask our financial institution to increase the bank line.

MR. AIKEN: Okay. Now, I take it that one of the main sources for cash for funding growth in rate base is your proposal to draw down your bank balance to nothing at the end of 2014; have I got that correct?

MS. HUGHES: Yes, that is correct.

MR. AIKEN: So if you would turn to page 11 of the compendium, you will see the response to 7.6, Energy Probe 32, part (d), which shows this in the 2014 column.

Every year shown in that table except for the test year shows that you have on average 10 to $13 million in bank balances. My question is: What has changed that allows you to draw down the balance to nothing in 2014?

MS. HUGHES: Well, we do have a large capital expenditure program, which we need to finance or need to utilize our cash for.

MR. AIKEN: Well, if you don't have any money in the bank at the end of 2014 or at the end of any month in 2014, how do you pay your cost of power expenses?

MS. HUGHES: So we utilize the line of credit and have working capital throughout the year, to fund those dips in the cost of power.

MR. AIKEN: Am I correct that you pay for the cost of power about 10 to 12 days after the end of each month?

MS. HUGHES: That is correct.

MR. AIKEN: And would you agree that the average cost that you pay the IESO is about $13 million a month?

MS. HUGHES: Yes. It would be in that magnitude, yes.

MR. AIKEN: So if your line of credit is down to 3 or 4 million after you have financed your capital expenditures, and you have got no money in the bank at the end of a month, where does the other 9 to 10 million come from every month that you need to pay the IESO?

MS. HUGHES: We have ongoing working capital available to us throughout the year, based on our collections and based on our payments.

So the cash flow does fluctuate; that that's why the operating line of credit is there.

MR. AIKEN: Now, the interest rate you are using for 2014, 1.13 percent, is lower than that shown for 2013.

My first question is: The 2013 column says this is subject to audit; were there any changes as a result of the audited actual data?

MS. HUGHES: I do not believe there were any changes, no.

MR. AIKEN: How did you come up with the forecast of 1.13 percent for 2014?

MS. HUGHES: So the forecast is based on the estimated cash flow throughout the period. The reason why the interest rate would change is our banking arrangement has a fluctuating interest based on the level of cash.

So on cash in excess of -- I believe it is 5 million, there is a higher rate of interest, and so as cash now comes down, the interest that we would be earning on that cash flow would be less.

MR. AIKEN: Can you provide what the rates are, what the current rates are in your bank account in these different tiers?

MS. HUGHES: I could. I have that...

MR. BROOKER: Yes. I have the information. The balance from zero to 5 million is 1.15 percent.

MS. HUGHES: It's prime minus.

MR. BROOKER: Yes, it's Royal Bank prime minus 1.85 percent.

At the end of February, which is the latest one that I have in front of me, that works out to a balance of 1.15 percent.

And the amount for amounts over -- 5 million and over is the Royal Bank prime 1.75 -- sorry, Royal Bank prime minus 1.75 is 1.25 percent.

MR. AIKEN: Thank you.

The response to 7.5, Energy Probe 30(c), which is on page 9 of the compendium, indicates that Cambridge intends to update its financing plan from year to year on a going-forward basis, and that:

"No decisions about future financing plans beyond 2014 have been made at this time."

Did any of your financing plans for 2014 change during 2013?

MS. HUGHES: Well, I -- if I could -- I think I understand the question.

We haven't changed our financing plans. What I would say is in the respective budgets, we did a two-year budget in 2012 for the two years, '13 and '14, and then we did a revised budget, which showed different financing requirements in the -- in 2015 as opposed to 2014.

MR. AIKEN: Well, my understanding is your current forecast for 2014 is this $4.7 million drawdown in your line of credit. And that's the only new debt that you would be taking on in 2014?

MS. HUGHES: Yes.

MR. AIKEN: But in your original forecast for 2014 -- which you provided to your board of directors, I believe, in February of 2013 -- you had indicated that you had planned on borrowing $2 million in long-term debt in 2013 and another 10 million in 2014; is that correct?

MS. HUGHES: So if I could provide the context for the modelling, the financial modelling that we use for the budget process that goes before our board of directors was originally done in 2012 for a two-year budget. It includes a five-year plan, but it was focussed on the two years, 2013 and 2014.

And the modelling, I believe, at that time -- and this was prior to my arrival with Cambridge and North Dumfries Hydro -- was that the model facilitated the amount of debt that would be required on an annual basis.

When the budget was revisited prior to -- for purposes of this application, what we looked at from Cambridge and North Dumfries' perspective is it's not uncommon for a utility to use short-term financing to bridge until it has an amount of financing that is sufficient and large enough that we could justify larger long-term debt takeout.

So from that perspective, in revising the 2014 budget and ultimately the forecasting beyond, we took that into consideration, and so then said -- anticipated that we would not do any financing in '14, because we had adequate cash and the use of a short term until a subsequent year.

MR. AIKEN: I take it, based on your outlook, that -- that subsequent year, 2015, where you have a plan to borrow $15 million?

MS. HUGHES: That's what the current budget says, yes.

MR. AIKEN: Now, issue 1.1 is phrased this way:

"Does the planning undertaken by the applicant and outlined in the application support the appropriate management of the applicant's assets?"

Does Cambridge believe this issue includes the management of the financing of the assets?

MR. MILES: I would say yes, they go hand in hand.

MR. AIKEN: Does Cambridge believe that the appropriate management of the applicant's assets includes an analysis of the impact on customers through service quality, reliability, and through rates?

MR. MILES: Yes.

MR. AIKEN: Did Cambridge do any analysis of the impact on the 2014 revenue requirement of its decision to defer the acquisition of additional long-term debt in the amount of $15 million to 2015?

MR. MILES: No, we did not.

MR. AIKEN: Why not?

MR. MILES: Because our financing plan all along was to, as Sarah just mentioned, was to utilize the short-term line until such time as we had a critical mass, if you will, of financing requirements that we could go access the capital markets with.

MR. AIKEN: Well, we already see that your actual long-term debt is about $35 million less than your deemed long-term debt. So wouldn't you consider that a critical mass already?

MS. HUGHES: Well, I mean, I guess what I would say is we currently have almost $10 million in cash. Prudent management would say to utilize your cash to fund your operations and then establish, you know, your financing requirements based on your longer-term needs.

MR. AIKEN: But you have just said you haven't looked at the impact that has on customers. So would you take it subject to check that if you borrowed the $15 million that you are planning to do in 2015 at the rate of 3.75 percent that is in your financial plan -- that's actually shown in the cash-flow statement in 1.1 School Energy Coalition No. 1 -- that your weighted average cost of long-term debt would decline from 4.96 percent to about 4.6 percent, and when you apply that to your deemed long-term debt of about 73 million you would end up with a reduction in debt costs of about a quarter million dollars? Would you take that subject to check?

MS. HUGHES: Directionally it would be a reduction in interest.

MR. AIKEN: Would you agree that in addition to that reduction, the debt costs, there would be higher -- a higher revenue offset through the interest earned on your bank balances if you didn't pull your bank balance down to nothing at the end of the year and kept it at historical levels?

MS. HUGHES: We would have higher cash with higher interest income, yes, I would confirm that.

MR. AIKEN: Now, based on your 2013 audited financial statements, I see that you also have an inter-company loan from your parent company in the amount of about 3.667 million, and I have included that at the compendium, pages 14 and 15.

Bottom of page 14 you will see the Energy+ inter-company loan, and then at the top of page 15 it showed that the interest paid was $152,000 on this loan.

So my first question on this loan is, what are the terms -- repayment terms and interest rate associated with this loan?

MS. HUGHES: So what I would say, with respect to this loan, this really is a consolidated cash-management program, that the parent company has loaned the $3.6 million purely as a consolidation of its cash balances.

The parent company earns interest on that amount and, as we alluded to earlier, the consolidated cash results in an overall increase in the rate of interest that is earned on the consolidated cash. So Cambridge and North Dumfries Hydro is also getting the benefit of a higher rate of interest as it consolidates the cash, and this is consistent with what we had also done in the 2010 application. We identified it as inter-company, but it is really us using the cash, earning a consolidated interest investment, and then providing the parent company with that interest.

MR. AIKEN: So there is no term to this loan? Is it a day-to-day loan? In other words, the parent company can ask for the money back at any time?

MS. HUGHES: Yes, it could. I think it is important to highlight when we utilize the cash in the interest-income analysis of just over 9 million, that did not include 3.6 million of cash.

So in fact, on our balance sheet you will see that we do actually have higher than $9.9 million of cash, and that is because the 3.6 million we didn't include for purposes of our cash balances.

MR. AIKEN: Could you turn to page 13 of the compendium? This is Exhibit 5, tab 2, Schedule 2, page 2 of your evidence. And I want to read the paragraph that starts at line 3 to follow up on what you said, and then I will have some clarification questions. It says:

"CND also has inter-company debt in the amount of 3,665,000 owing to its corporate holding company. This amount represents cash that was advanced by CND Energy+, was combined with CND's cash, and is invested in short-term GICs or similar low-risk investments. By combining the surplus funds available within the corporate group of companies, a higher interest rate is earned than may be possible if each company invested independently."

So stopping there, that is what you have indicated -- you have this tiered rate on your bank account?

MS. HUGHES: Yes, that's correct.

MR. AIKEN: Okay. Now, what follows on that I am not sure I understand, it says:

"No net interest expense is recorded by CND on this inter-company debt, as the amount of interest expense on the inter-company debt is equivalent to the portion of interest income earned on the 3.665 million as a percentage of the total cash investment for the corporate group of companies."

So if I stop there, can I -- I just want to run through a simple example of how I think this works, and you can tell me if I am right or wrong.

So if you borrowed 3 million, just to round the numbers, from your parent and you combined it with 2 million of your own cash, you invest the $5 million.

MS. HUGHES: That's correct.

MR. AIKEN: And if you earned $200,000 of interest on that $5 million, then three-fifths of that, or $120,000, would be the interest cost of the $3 million loan from your parent, and that's what they would get. That's how it works?

MS. HUGHES: Yes, that's correct.

MR. AIKEN: And then you would simply record the remaining $80,000 in my example as interest for CND HI.

MS. HUGHES: That's correct.

MR. AIKEN: And where would that 8,000 be recorded?

MS. HUGHES: It would be recorded in interest income for CND HI, CND.

MR. AIKEN: Okay. So if I look back at the 2013 audited statements, on page 15 we see the interest costs there associated with this $3.667 million, being 152,000, for 2013.

Is that the same 152,000 that shows up in the table on page 11 of the compendium that shows interest revenue for investment income?

MS. HUGHES: No, it is not. So just to clarify, for financial statement reporting purposes we are required to disclose inter-company transactions. The amount of interest paid of 152 included both the 20 -- a portion of the 2013, as well as a small portion from 2012.

So this actually represents the interest expense paid, not necessarily interest expense earned.

MR. AIKEN: Could you tell me what the interest expense paid in 2013 is that was related only to 2013? The problem I am having is, if you take the 152,000 as the interest costs for this $3.6 million loan, you get a rate of about 4.1 percent, and I am trying to reconcile that 4.1 percent you are paying your corporate parent with the 1.3 percent you say you got as an interest rate in 2013.

MS. HUGHES: I don't have that, but I can certainly get it.

MR. AIKEN: Okay. Thank you.

MS. HELT: So Undertaking J1.4 will be to provide the interest expense paid in 2013 that is related only to 2013.

UNDERTAKING NO. J1.4: TO PROVIDE INTEREST EXPENSE PAID IN 2013 THAT IS RELATED ONLY TO 2013.

MR. AIKEN: You will be happy to know I am moving along faster than I had anticipated, so I am now moving on to OM&A.

So if I could get you to turn to page 16 of the compendium. This is a table I have put together based on the evidence and interrogatory responses, and I want to go through it in some level of detail.

So starting with line 4, you will see in the footnote, this comes from 4.2, Energy Probe 14, and includes unaudited actuals for 2013 and removal of the smart meter decision costs from 2012. So I've used that as my starting point.

Line 5 is from 4.2, Energy Probe 13. Shows an increase to your OM&A request for the test year of 57,400, and that is related to one-fifth of the regulatory costs.

And then line 7 comes from 7.4, VECC 32, a reduction of 117,000 and change, and I believe this had something to do with GridSmartCity, if I remember.

MS. HUGHES: So this -- so as a result of our association with the GridSmartCity, we were able to negotiate lower health benefit costs for the 2014 test year, and so we identified this as a savings to reduce OM&A.

MR. AIKEN: And I take it if -- from what you said this morning, there should be another adjustment in here now, a reduction of about 59,000.

MS. HUGHES: With respect to the sync operator. That's correct.

MR. AIKEN: Yes, okay. So then on line 9, what I have done there is I have taken the response you provided in 4.2, Energy Probe 7(c). You had already taken the smart meter decision out of the 2012 costs, and I have put it back in, in 2010 and '11, as well as the 2010 Board-approved -- so when you actually incurred those expenses -- to try and get this all on an apples-to-apples comparison.

Now, when we move to lines 12 and 13, my understanding is that in your forecast for 2013 you included $287,000 for regulatory costs associated with this proceeding; is that correct?

MS. HUGHES: That is correct.

MR. AIKEN: And line 13 was $200,000 forecast for a one-time space study, I believe it was?

MS. HUGHES: Yes, that's correct.

MR. AIKEN: Now, the 2013 figures are based on unaudited amounts. Have these numbers changed -- in particular, the starting point, the 13,788,894 -- has that changed as a result of audited actuals?

MS. HUGHES: Yes. I believe the operating expenses are higher in the final audited financial statements.

MR. AIKEN: Would you undertake to update not this table, but table 4-17 in the response to 4.2, Energy Probe 14, to reflect your audited actuals?

And in addition to that, the adjustment, if there was anything -- and I think you indicated before there was not -- but any adjustment for the accounting change, the 473,823 number that you will see on line 18 of my table, if that changed?

And provide the actual costs for the one-time cost study that you'd forecasted, 200,000, and any of the regulatory costs related to this proceeding that were expensed and included as part of the 2013 audited data?

So in other words, the actual replacement for the 13.788 million, the actual for the 287,000 that was part of those actuals, the actual for the space study, and any change for the adjustment for the accounting change in 2013.

MS. HUGHES: So yes, we could provide that.

MS. HELT: So we will note that, then, as one undertaking, J1.5, on the understanding that there are four parts to that undertaking.

UNDERTAKING NO. J1.5: (1) WITH REFERENCE TO IR EP 14, 4.2, TO UPDATE TABLE 4-17 TO REFLECT AUDITED ACTUALS; (2) TO ADVISE WHETHER THE 473,823 NUMBER HAS CHANGED; (3) TO PROVIDE THE ACTUAL COSTS FOR THE ONE-TIME COST STUDY; (4) TO ADVISE REGULATORY COSTS RELATED TO THIS PROCEEDING EXPENSED AND INCLUDED AS PART OF 2013 AUDITED DATA; in other words, the actual replacement for the 13.788 million, the actual for the 287,000 that was part of those actuals, the actual for the space study, and any change for the adjustment for the accounting change in 2013; (5) WITH REFERENCE TO LINE 22 AT PAGE 16, MR. Aiken's table, to add a fifth part to update the actual number of customers for 2013 as found in appendix 4-4 of Exhibit 4

MR. AIKEN: Can you also confirm that the 2013 actual audited figures for OM&A do not include any removal costs? Or have you included those in your OM&A?

MS. HUGHES: No, we have not. They are included in amortization expense for purposes of the audited financial statements.

MR. AIKEN: Now, I understand that Cambridge and North Dumfries has filed a letter with the Board indicating that you will be filing a Z factor claim as a result of the storm damage in December.

Are any of the costs that will be claimed in that application included in the 2013 actual data?

MS. HUGHES: No, they are not. The OM&A excludes -- excludes the storm costs.

MR. AIKEN: Okay. And are there any -- so it includes all storm-related costs? Not just Z factor, but any other costs that you may not be claiming a Z factor?

MS. HUGHES: So in terms of the accounting at year-end with respect to the storm, incremental costs associated with the storm, as we have determined, have been included in the regulatory variance account as extraordinary.

Those that were incurred as part of regular hours with existing staff that were not considered to be incremental are included in OM&A.

MR. AIKEN: Okay. So then if I could take you back to line 22 in page 16, the table I have put together -- and I should have asked you for this before, but as part of the previous undertaking, could you add a fifth part to update the actual number of customers for 2013 as found in appendix 4-4 of Exhibit 4? So that would be the replacement number for the 52,663.

MS. HELT: That will then be included as part of Undertaking J1.5.

MR. AIKEN: Now we're going to get down to the key questions on this.

If you look at lines 27 and 28, the OM&A cost per customer on an apples-to-apples basis from 2010 Board-approved through the forecast for 2014, the cost per customer increases from $208.84 on a Board-approved basis, to $224.12 in 2012.

Subject to check, would you agree that represents an annualized compound increase of about 3.6 percent per year?

MR. MILES: Yes.

MR. AIKEN: Would you also take it, subject to check, that the average annual increase in inflation between 2010 and 2012, as measured by the GDP IPI FDD, was about 2.1 percent per year?

MR. MILES: Subject to check, yes.

MR. AIKEN: So what are the drivers that increase your OM&A per customer faster than inflation?

MR. MILES: Well, I think I would have to take you back to my opening remarks with respect to some drivers that were specific to CND, mainly in the areas of the IT department, as well as the control room staffing and succession planning.

Those would be the three sort of key drivers.

MR. AIKEN: You would agree that smart meters were not a driver of the increase between 2010 and 2012 in the analysis I have --

MR. MILES: Not as you have adjusted them, no.

MR. AIKEN: Okay. Now, would you agree that inflation for 2013 and 2014 is likely lower than what it has been in the last two years -- or, sorry, in 2011 and 2012? Based on the Board's IRM numbers?

MR. MILES: Pardon me, can you just repeat that?

MR. AIKEN: Sure. Do you agree that inflation for 2013 and '14 is actually lower than it was for 2011 and '12?

MR. MILES: Subject to check, yes.

MR. AIKEN: Now, the increases for 2013 and 2014 are significantly higher than inflation, and the differential between the actual increases in inflation shown for 2011 and 2012.

So my question is: What is driving this acceleration in the cost per customer?

MR. MILES: This was those items I spoke about previously, in my previous answer.

We have hired additional resources in the IT department and in the control room area, and in certain other departments for succession planning purposes.

MR. AIKEN: In terms of the efficiency cohort groupings that the Board has published for several years now, can you confirm that Cambridge has been in the middle of the grouping in each of the years 2011 through 2014?

MR. MILES: Yes.

MR. AIKEN: And can you confirm that in 2010 you were in the most efficient grouping?

MR. MILES: I would have to confirm that one. I -- I did not look at the 2010.

MR. AIKEN: Subject to check?

MR. MILES: Yes, we think we were in group 2, but we would need to check that.

MR. AIKEN: Okay. Would you undertake to do that?

MR. MILES: Sure.

MS. HELT: Undertaking J1.6 will be to confirm where they stood with respect to the efficiency benchmarking in 2010.

UNDERTAKING NO. J1.6: TO CONFIRM WHERE CAMBRIDGE STOOD WITH RESPECT TO THE EFFICIENCY BENCHMARKING IN 2010.

MR. AIKEN: In terms of your service-quality reliability statistics for the 2010 through 2013 period -- and I realize I don't think we have '13 on the record -- which ones have you failed to meet the Board's guidelines, and how often did you miss the target, if at all? Or if you don't have 2013, just up to the end of 2012.

MS. HUGHES: Sorry, in -- just perhaps if we could pull it up. I think 2.1, SEC 14, we provided the scorecard where we provided an actual for 2013 and a projection for 2014 as well, just in terms of what we're referencing.

MR. MILES: So with respect to the service-quality indicators, we have met all of those indicators from 2010 through to 2013.

MR. AIKEN: Okay. Thank you.

If you could turn to page 17 of the compendium. This is the cost-driver table filed in response to 9.2, Staff 40. The biggest increases shown for 2013 and '14 appear to be in the line labelled "organizational capacity". I take it that's FTEs?

MS. HUGHES: Yes, that's correct.

MR. AIKEN: And that reflects what you said before, Ian -- sorry, Mr. Miles, of the IT growth?

MR. MILES: The IT system control operators and other positions that were identified as needing to be hired for succession planning purposes, yes.

MR. AIKEN: Okay. And then flipping over to the final page of the compendium, page 18, and looking at Table 4-25 at the bottom, this shows your actual FTEs for 2013 were 3.3 below the forecast, and between 2010 and 2013 you added a total of 15.8 -- I think that's right -- 15.8 FTEs, and the forecast now, given your 2013 actuals, is an additional 15.9 FTEs in 2014 alone.

MR. MILES: Where is that?

MR. AIKEN: Have you provided in the evidence somewhere a breakout of the 15.9 based on, for example, IT people, that reflects your 2013 actuals, I should say, versus apprentices, control-room people, management?

MS. HUGHES: So we have not provided, I do not believe, in response to the interrogatories. But we -- you know, what I would -- I would refer to Table 4-20 specifically with respect to the 2013 actuals. We are at 109 at year end.

So the difference between Table 4-20 and Table 4-25 is 4-20 is year-end head count, the number of employees we have at the end of each fiscal. Table 4-25 is the equivalent, so the equivalent that we have throughout the year.

And as we have provided, a number of our new FTEs were added throughout 2013. So they didn't start at the beginning of the year. They were actually staggered throughout 2013.

So one of the drivers, in terms of the FTE increase, going from the '13 number to the '14, is that they were not all one -- an equivalent of one in 2013.

So how I would describe this is at the end of 2013 we had 109, and we planned to have 112. So there are three positions that we have not filled.

MR. AIKEN: So then I take it if I compare 4-20 and 4-25 for 2014, 4-20 is saying that at the end of 2014 you're going to have 117 employees, and 4-25 is saying, essentially, you are hiring them all at the beginning of January, because your FTEs for the years is virtually identical to your year end.

MS. HUGHES: That is correct. That is the assumption that we made, yes.

MR. AIKEN: How many actual -- let me phrase it this way. What would be the number in Table 4-20 for the number -- total number of employees at the end of March or the current time? In other words, have you hired?

MS. HUGHES: So of the three vacancies that we had at the end of 2013, there were two control-room operators and one design engineer. One control-room operator has now been hired -- I believe the date is April 21st -- and the design engineer was hired on January 1st, 2014.

Then the new hires in 2014, there is -- there are different dates, actually, in 2014 for the new hires for 2014.

MR. AIKEN: Okay. If you go back to page 17 of the compendium -- this is the cost-driver table. And because of the changes in when you have hired, would it be possible for you to update the organizational-capacity line for 2013 and '14 to show how those cost drivers have now changed based on your actual 2013 numbers and when you hired people and those three that you didn't hire?

MS. HUGHES: So, I mean, that would actually be reflected in our 2013 actuals. So where somebody has not been hired in 2013, then our actuals are actually reflecting that.

So coming in -- I just want to make sure that I understand. And then coming into 2014, we would now -- now have a full-year impact of all of those FTEs that were hired in 2014.

So when we originally did this cost-driver table we would have incorporated that in the merit and collective -- the increases.

So, you know, if they were hired in 2013, the impact of '14 is the sort of merit and annual increase, and any new hires would be in the organizational capacity.

So if we were to do what you asked us to do, we would have perhaps less organizational capacity in '13, but more in '14.

MR. AIKEN: Yeah, I guess my question is, you've brought the merit increases in as well. So maybe those two line items, which account for about $1.4 million of your increase over these two years, would the totals be the same?

I mean, I agree what you're saying, 2013 would be lower and 2014 would be higher, but would they more or less offset one another?

MS. HUGHES: Ultimately by the end of -- as part of 2014, assuming that all of the vacancies that we were hired -- that hired in '14 and '13, the total OM&A would not be impacted.

But if I were to update the table for 2013 actuals, these figures would be lower, but then the differential will come into '14. So it will change the variance between years, but by the -- for the 2014 test year it would not have a significant impact, in terms of the overall costs.

MR. AIKEN: And then moving finally on to the response to 4.2, Energy Probe 10, which I did not include in the compendium, but the response indicates that there was a mismatch between the number of FTEs used in appendix 4-4, which I think is the OM&A cost per customer, and the costs associated with these positions in the OM&A figures. And you provided a new table that used the lower number of FTEs actually included in the OM&A costs.

And I understand the difference was, you had included the CDM-related FTEs in the FTE number, but not their wages in the OM&A costs, because -- being paid for by the OPA.

MS. HUGHES: Yes, that is correct.

MR. AIKEN: Is the same true of the figures used in appendix 2-K for employee costs, in your evidence? In other words, do the employee costs shown exclude the CDM staff, while the number of FTEs includes these staff?

MS. HUGHES: Yes, that is correct.

So the dollars and the OM&A expenditures for salaries and wages do not include the CDM FTEs, but the number of FTEs are included in schedule 2-K.

MR. AIKEN: Okay. Could you provide, then, a reviewed -- I should say this comes from 4.2, School Energy No. 28, where they also asked you to show the amount capitalized from the employee costs for, I think, 2012, '13 and '14.

Could you provide a revised appendix 2-K for the employee costs from that interrogatory that only reflects the -- I guess continues to only reflect what you included in the revenue requirement? So no CDM employee costs?

MS. HUGHES: So --

MR. AIKEN: But updated to reflect the correct FTE numbers that would exclude those -- I think it is, like, three employees in three years.

MS. HUGHES: So what I would offer is the dollar values would not change, because we have not included the salary and wages for these CDM folks.

What would change would be the number of FTEs, and there are currently four CDM staff members.

MR. AIKEN: But that has changed year by year, right?

MS. HUGHES: That has changed year by year, but we prepared the table consistently, to not include the costs of the CDM wages but to include the FTEs.

MR. AIKEN: Yes. So for example, if you went back and re-did 2011, the dollars are the same but there might be one less FTE, for CDM?

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

MR. AIKEN: In 2014 there would be four less?

MS. HUGHES: Yes.

MR. AIKEN: Could you undertake to do that? And would there be any change -- I guess there would be -- to reflect audited actual 2013 data?

Because I don't think the interrogatory response would have -- you would have had that information at that time.

MS. HUGHES: No, we did not. That would be a fair amount of work for us to undertake, the preparation of schedule 2-K to include the 2013 actuals, but...

MR. AIKEN: Can you do it on a best-efforts basis? And if you can't, then leave 2013 as the forecast with the actual FTEs?

MS. HUGHES: Okay.

MS. SPOEL: Mr. Aiken, if it is a lot -- like, is it likely to be material to the outcome of this case? Because if it is a lot of work and it's not --

MR. AIKEN: It may be, because obviously the cost of wages and number of FTEs is one of the key cost drivers. And I mean, we may not know where 2013 ended up; that's why I said on a best-efforts basis.

MS. SPOEL: You know, in general it might have been helpful to ask some of these questions at the technical conference or in advance of today, so that the witnesses could have been prepared. If you had let them know that you wanted this information, they could have come with it prepared, instead of having to go away and do a whole lot of work.

This isn't a very efficient way of getting at all this information.

MR. AIKEN: Yes. I should just note that under the Board's process, there was no opportunity after the settlement conference. And of course this information wasn't filed until last week.

MS. SPOEL: Well, you could have sent a letter saying you were going to ask it.

MR. AIKEN: Anyway, those are my questions.

MS. HELT: So we will have that noted as Undertaking J1.7, and I take it that is sufficiently clear what was asked that I don't need to repeat the undertaking?

MR. VELLONE: It is. Just to be clear, it is on a best-efforts basis.

MS. HELT: Correct.

MR. VELLONE: There might be a chance that this can't be answered.

MS. HELT: Yes. Thank you.

UNDERTAKING NO. J1.7: with reference to 4.2 of SEC IR 28, to provide a revised appendix 2-K for the employee costs from that interrogatory to only reflect what was included in the revenue requirement (i.e. without CDM employee costs) AND CDM FTEs

MS. LONG: Just because Mr. Aiken has touched upon this, Ms. Hughes, I would like to just clarify one question.

With respect to new employees in 2014 -- and I am not talking about the three that I guess are carryover from planned in 2013 -- are you able to give me the total number that you are expecting in 2014, and some idea of how those would be broken down into the three areas that Mr. Miles stressed as, I guess, being IT, control room, and I guess succession planning?

MS. HUGHES: So I can certainly provide the summary of the five that are planned for 2014 in addition to the three carryovers.

If you could just give me a second, I do have that list.

MS. LONG: Sure.

MS. HUGHES: I know that it is two powerline technicians. It is a -- one accountant, one human resource generalist. I am trying to find the other one. Help me out here.

[Witness panel confers]

MS. HUGHES: My apologies.

MS. LONG: No. Take your time.

MS. HUGHES: Where is the list of FTEs? I need the new headcount table. My apologies.

MS. LONG: If it's not easily available, you can let me know after the lunch break. That's fine. That's fine.

So, Mr. Aiken, those are all of your questions?

We will now move to you, Mr. Janigan. Do you have any idea of how long you think you are going to be?

MR. JANIGAN: I'd say about an hour, Madam Chair.

MS. LONG: I think if the reporter is fine, we will go for half an hour. So you can plan yourself accordingly, and we will look for a convenient break around the 12:30 mark, but, Mr. Janigan, you can start.

## Cross-Examination by Mr. Janigan:

MR. JANIGAN: Thank you very much. Panel, I would like to ask a few questions, first with respect to some follow-up from Mr. Aiken.

As I understand it, while you have met the reliability stats of the Board, your reliability stats have declined over the last three years; am I correct on that?

MR. MILES: That's correct.

MR. JANIGAN: Okay. And secondly, if I can just get some numbers fixed, at least in my head, if you turn to Energy Probe's compendium and page 16 –-

MS. HELT: Mr. Janigan, perhaps at this time we can mark your compendium as an exhibit.

MR. JANIGAN: Okay. Thank you very much.

MS. HELT: That will be Exhibit K1.4. The compendium of VECC, I'm sorry.

EXHIBIT NO. K1.4: Cross-examination compendium for VECC

MS. SPOEL: Do we have a copy of that, or is this on the screen?

MR. JANIGAN: I believe you have a copy of that.

MS. HELT: My apologies. I didn't provide it earlier to you.

[Ms. Helt passes compendium to Board Panel members]

MR. JANIGAN: But my question doesn't deal with my compendium; it deals with the Energy Probe compendium, page 16 of that compendium.

Am I correct with -- looking at the Energy Probe schedule, that the amount of the O&M increase in accordance with the schedule is 12.2 percent? Is that the right number, given it adjusted to old CGAAP?

MR. MILES: Subject to checking the math, yes.

MR. JANIGAN: In terms of the combination of that particular increase in OM&A and the other items that are associated with the partial settlement, what is the likely rate increase that will be passed on to -- do you call your company CND, or do you refer to it Cambridge or...

MR. MILES: We have been referring to it both ways, either CND or Cambridge.

MR. JANIGAN: Okay. CND I will use, then.

What will be the likely rate increase that CND passes on to its customers?

MR. MILES: We would have to recalculate what it is, after all these various amendments and corrections that we've talked about. We have not done that yet.

MR. JANIGAN: Is it possible that you could undertake to provide that both for the rate increase across the Board for customers and the residential rate increase as well? Do you have any ballpark estimate of where it might be?

MR. VELLONE: Just because we haven't yet recorded an undertaking, is that a lot of work to do?

MR. BROOKER: Yes, it is a lot of work.

MS. HUGHES: Yes.

MR. VELLONE: And I guess in response to that, it sounds like the answer is, yes, that is a lot of work.

MR. JANIGAN: Can we do it on a ballpark basis?

MR. VELLONE: Are you comfortable doing it on a ballpark basis?

MR. BROOKER: I can suggest that we provided the rate impacts as part of our application, and given the changes in adjustment that have been made, it would be less than those rates, if that is helpful in any way.

MR. JANIGAN: Okay. For the purpose of my questions today, what's your estimate of what that might be? Can you give that?

MS. LONG: Mr. Janigan, are you asking for a percentage --

MR. JANIGAN: Yes.

MS. LONG: -- of the distribution portion of the bill? That's what you're asking for?

MR. JANIGAN: That's correct, yes.

MR. BROOKER: I really don't have that easily available, I'm sorry to say.

MR. JANIGAN: All right. Can you undertake to provide it? Is that a problem?

MR. VELLONE: Yes, it is.

MR. JANIGAN: Well, I think he's indicated that it would be less than what has been provided in the application. Is there no way to tell me how much less?

MR. BROOKER: I can certainly do it on a best effort. I can certainly commit to doing that.

MR. JANIGAN: That would be fine.

MS. HELT: All right. Then that will be, if the panel is in agreement --

MR. AIKEN: Sorry, can I just jump in? I might be able to save an undertaking.

If you take a look at the revenue requirement work form in the settlement agreement, the deficiency is about 3.5 million, distribution revenue is about 24.3 million. So I make that out to be an overall increase of about 15 percent. That is not rate-class-specific, but it does show the revenue requirement impact.

MR. JANIGAN: Okay. Panel, would you accept that subject to check?

MR. BROOKER: Yes, yes.

MS. LONG: Is that sufficient for your purposes, Mr. Janigan, and we can do away with the undertaking, then?

MR. JANIGAN: Yes, we can, thanks.

I wonder if you can -- this is also not in my compendium, but it is found in your application on Exhibit 1, tab 8, schedule 5, page 3. And I will wait until you turn that up. It is entitled "Board mandate".

MR. VELLONE: Could you repeat the reference, please, Mr. Janigan?

MR. JANIGAN: Sure. It is Exhibit 1, tab 8, schedule 5, page 3.

Do you have that?

MS. HUGHES: Yes, we have it.

MR. JANIGAN: And it references a shareholders' agreement between the Corporation of the City of Cambridge and the Corporation of the Township of North Dumfries and outlines the expectation of shareholders to the principles of corporate governance. And it goes on to list some of the shareholder expectations.

Now, to the best of your knowledge, is CND fulfilling those expectations?

MR. MILES: Yes, we are.

MR. JANIGAN: And do you prepare and present an annual business plan for approval?

MR. MILES: Yes, we do.

MR. JANIGAN: And does that business planning indicate the kind of rate increases that might be passed on to the customers of CND who are also the citizens, I assume, of those two --

MR. MILES: Yes, it does. The business plans that we present to our board always include a rate impact analysis.

MR. JANIGAN: And to your knowledge, do your two shareholders, in the context of the municipal services that they provide, do they -- have they ever passed on rate increases to their property-tax holders in the amount that is contemplated by this application?

MR. MILES: I am not familiar with their rate increases to taxpayers.

MR. JANIGAN: Is there any concern expressed by -- in your business plan associated with the size of these increases and the ability of your ratepayers to pay?

MR. MILES: Sure. I mean, in the context of presenting our business plan to our board, there's a very fulsome discussion around the rate impact that our proposed strategies have with respect to customers.

MR. JANIGAN: And as far as you are aware, the representatives of the shareholders on the Board are satisfied with the increase that you intend to pass on to their citizens?

MR. MILES: Yes.

MR. JANIGAN: Okay. Now, once again, just to make certain I've got the numbers and the reasons for these numbers arising from the cross-examination of my friend Mr. Aiken, going back to page 16 of his exhibit, it shows in 2014 in the last column a number of changes that have arisen since the totals that were set out on page 3 of my compendium at 4.2, VECC 7.

It showed an OM&A amount of 14,997,103. And this column underneath that, that figure, shows a number of a different adjustments that have been made to get to a number that is about 60,000 less.

Am I correct on that?

MR. MILES: Correct.

MR. JANIGAN: And in your earlier testimony you went into the reasons why these different adjustments occurred, did you not?

MR. MILES: Yes.

MR. JANIGAN: Okay. Now, in terms of the FTEs -- and as I understand it from -- in particular from your conversation with the Board panel, that the number -- the total number of FTEs has increased for 2014 by three positions that you didn't staff in 2013 and five new positions that you planned to hire in 2014.

MS. HUGHES: Yes, that's correct.

MR. JANIGAN: Okay. And in response to SEC Interrogatory 22, 4.2, SEC 22, that is on page 10 of my compendium, you stated that the delay in the hiring of the system control operators until March 31st, 2014 has an impact on the 2014 test year of approximately $36,000.

Now, as I understand, one of those control operators has been hired? Was I correct on that?

MS. HUGHES: Yes, that's correct.

MR. JANIGAN: Okay. And we're now getting into May. Where are you in the process of the hiring of the remaining operators?

MS. HUGHES: I understand that we are actively recruiting for that third and final control-room operator.

MR. JANIGAN: Okay. Given the time that's needed to go through the recruitment process, what is the current estimate for the reduction of OM&A costs due to the delay in hiring?

MS. HUGHES: So we would anticipate that we could hire the last control-room operator by May. So that would be an approximate value of about 18,000.

MR. JANIGAN: If you delayed that to the end of 2014, what would be the impact?

MS. HUGHES: We are not anticipating delaying it to beyond -- beyond May. The annual costs of a system control-room operator, I believe, is 60 -- approximately 60,000.

MR. JANIGAN: Mm-hmm. Thank you.

MS. HUGHES: On a salary basis.

MR. JANIGAN: Okay.

MS. HUGHES: Not including benefits.

MR. JANIGAN: Benefits are, what, about 13 percent?

MS. HUGHES: No. They're approximately --- I believe they're around 32 percent.

MR. JANIGAN: Okay. Now, I apologize if this was covered in Mr. Aiken's cross, but I don't believe I heard this.

In your evidence on Exhibit 4, tab 4, schedule 3, page 1 -- and that is page 9 of my compendium -- you provide the FTE variances between 2010 and 2011 actuals, but not the difference between the Board-approved and your 2010 actuals.

What is the explanation for the variance in the number of FTEs that were approved in your last rebasing, which is 90.7, versus the number of FTEs actually employed in 2010, which was 84.7? The six employees that appear to have been funded in rates more than you actually employed?

Is that something to do with the CDM answer that you gave earlier, or is that something different?

MS. HUGHES: I actually don't have the information with respect to what was approved, the differential between the FTEs and the 2010 approved and the 2010 actuals.

But I would say -- the one thing that I can offer is it is often difficult from an FTE perspective, because the FTE is computed based on positions being in or out throughout a year. So that could also vary as a result of if a position -- for some reason, somebody left the organization and moved on to a different position.

So oftentimes there are variances in FTEs, but, you know, I certainly don't have the specific answer to that question.

MR. JANIGAN: That's a fairly big difference, given the size of the company, and particularly given that it was in the -- included in the Board-approved. You say that this kind of thing happens frequently, though?

MS. HUGHES: In terms -- I can't comment on the differential in terms of the pure quantum.

What I would offer, though, is there are times when people move in and out of positions, and it does impact on the FTE computation.

But I would, you know, have to certainly do some digging to find out specifics off of the Board-approved.

MR. JANIGAN: I don't want you to do exhaustive digging, but I mean, if you could -- can you provide me with an -- undertake to provide me with a reason for that, in a general sense?

MS. HUGHES: Yes, we can try to do that.

MR. JANIGAN: Thanks very much.

MS. HUGHES: Best efforts.

MS. HELT: That would be Undertaking J1.8, to provide, using best efforts, an explanation for the difference in the number of FTEs reflected in the 2010 actuals versus the forecast.

UNDERTAKING NO. J1.8: TO MAKE BEST EFFORTS TO PROVIDE AN EXPLANATION FOR THE DIFFERENCE IN THE NUMBER OF FTES REFLECTED IN THE 2010 ACTUALS VERSUS FORECAST.

MR. JANIGAN: In table 4.20 -- which is page 7 of my compendium -- it shows that CND have added 28 new full-time positions since 2010. That is from your evidence at Exhibit 4, tab 2, schedule 2, page 3.

I am confused by that number, since on table 4-19, which is on page 6, it shows the number of FTEs in 2010 as 84.7 and the number projected in 2014 is 116.6. That's an increase of nearly 32, which is 31.8 FTEs.

Can you explain the difference to me?

MS. HUGHES: I just want to clarify. So you are speaking about the differences on table 4-20 --

MR. JANIGAN: Yes.

MS. HUGHES: -- compared to the differences in the schedule 2-K FTEs?

MR. JANIGAN: At table 4-19.

MS. HUGHES: Yes. So the primary difference in the two tables is 4-20 is the headcount at the end of the year, and so it reflects how many positions are filled in the organization at the end of each fiscal year.

The FTE in schedule 2-K is a full-time equivalent calculation, which takes the amount of FTE throughout the year. So for example, somebody hired on June the 1st would count from June 1st to December 31st as half an FTE.

So it is difficult to reconcile the two without going through every single detail, but I think we have provided a variance analysis of the change in FTEs year over year in the variance analysis that we provided.

MR. JANIGAN: Whether the number is 28 or 32, the increase in FTEs for CND amounts to about somewhere between 30 to 35 percent; would you agree with that?

MR. MILES: Yes.

MR. JANIGAN: And that number is well in excess of your customer growth of less than 7 percent since 2010; is that correct?

MR. MILES: Yes. That's correct.

MR. JANIGAN: Now, whatever the drivers of this, does this not mean that CND is significantly declining in productivity?

MR. MILES: I would not agree with that statement.

There have been new requirements that have been introduced to the business over that time period, that would need to be factored into any sort of a productivity calculation.

MR. JANIGAN: And we have attempted to -- at least Mr. Aiken has attempted to isolate some of those for us here, and particularly isolating them in relation to the different years and the requirements with respect to smart meters and whatever.

are the three requirements, the three additional requirements that you've stated, the sole and only reason for the -- any drop in productivity? What I mean by "productivity" is doing the same amount with the same number or fewer people.

MR. MILES: I'm sorry, could you repeat that? I didn't follow.

MR. JANIGAN: Sorry. That is a bit of a convoluted question.

Are the three drivers that you have mentioned earlier with respect to the IT, the control room operation, and the third requirement being...

MR. MILES: Succession planning.

MR. JANIGAN: Succession planning. Those are the sole drivers for the increases in FTEs that you have experienced?

MS. HUGHES: So perhaps it would help if I could summarize the new positions. I have found my list. And I think it would help to put things into context.

So two of the hires, one was a vice president of IT and one was a service desk analyst, specifically related to the IT area.

Three system control-room operators, as we discussed earlier. The system control operators is required, one, to move to a 24/7 control room operation, as well as we do have one system control operator who is expected to retire in a future year, and it does take three to four years to train a system control-room operator.

There were a design technician and design engineer, as well as a GIS technician. Those new positions were capitalized positions, but still included in our full-time equivalents.

We have seen a growth in our distribution system capital expenditure plan and have requirements there. Three powerline technician apprentices in 2013, and that is a direct relationship to succession planning, and there will be a two -- two additional are planned for 2014.

We have a field representative in customer-care area that actually replaces a contract position, so we're bringing it in-house; a credit and collection supervisor; a manager of communications; and a meter technician apprentice, which also deals with succession planning.

And in 2014 the five new hires -- this is to answer the question -- would be two powerline technicians, again, for succession planning, a human-resource generalist position. So our -- up until now our human-resource department has been staffed with one, so we added one FTE in the human-resource area, one intermediate accountant.

We do have growth in our capital program and transactions and have hired a new accountant, and then the sync operator, which I spoke about, where we're replacing a contract position.

So those, in summary, are the key new FTEs.

MR. JANIGAN: I understand that six of those new FTEs are related to succession planning; is that correct?

MR. VELLONE: Just before we move on, was what you are reading from, is that on the record?

MS. HUGHES: Yes, it is.

MR. VELLONE: Can you just give us the pinpoint so people can look back at it?

MS. HUGHES: Okay. Exhibit 4. Sorry, I was just reading from my own list, but those positions are highlighted in the evidence.

MS. LONG: Perhaps, Ms. Hughes, you could give us a reference after the break.

MR. JANIGAN: If you look to page 14 of my compendium, I believe in the presentation of the 2013-2014 operating budget you show that six of the new positions are designated as backfills for future retirement; is that correct?

MR. MILES: That's correct, yes.

MR. JANIGAN: Okay. So if you deduct six from 28 or 32, whichever the number is, there seems to have been a staggering gap in your capacity to run a municipal electric that occurred before 2010 that was only discovered by your management planning. Would you agree with that?

MR. MILES: I would say that the gaps emerged as the organization transitioned from, I will call it the old steady state model, into the new world of smart meters and time-of-use billing and all of the various IT requirements that came along with that.

And in addition to all of that, customer expectations were also changing with respect to e-services and dealing with us electronically.

So there was quite a number of changes that drove the requirement for additional resources.

MR. JANIGAN: So it was changes that grew the requirement. It wasn't the fact that there were tasks that you were -- weren't doing before that these new people are doing; in other words, old tasks that weren't being done well, not dealing with the changed tasks?

MR. MILES: Well, the changes primarily drove the need for additional IT requirements over and above where they were back in 2010.

With respect to the system-control operators, I would say that that is one area where the organization was just too thin. The risk associated with running a system our size with 53,000 customers with three control-room operators just didn't make any sense.

MR. JANIGAN: Have you compared the increases in FTEs that CND have experienced, the increases in FTEs that other municipal distribution companies have experienced?

MR. MILES: We have benchmarked ourselves on the outcome; in other words, where we are in 2014 after we have executed this plan, compared to other utilities.

MR. JANIGAN: But not directly in terms of looking at whether or not they have these kind of hires.

MR. MILES: Not directly in terms of the increases year over year, no. We looked at where we are in 2013 and 2014.

MR. JANIGAN: Okay. Now, in terms of the six new positions, do you anticipate -- you show that six of the new positions are designated as backfills for future retirements.

In your OM&A budget do you anticipate any of these retirements?

MR. MILES: We do. However, they're in the three- to five-year time horizon. They're outside of the 2014 test year.

MR. JANIGAN: So there are no reductions that are associated with that expectation?

MR. MILES: I believe we have one in 2014, and that has been factored into our budget.

MR. JANIGAN: Now, as I understand how the succession planning works, effectively you bring somebody on board to help learn the position while the old person is still there. Is that effectively what you do?

MR. MILES: Well, in the case of the skilled trades, which is primarily the area that we're talking about here, when we hire a new person we're hiring an apprentice who, before they're qualified to work on lines or work in the control room, are required to go through a three- to four-year training program.

MR. JANIGAN: Okay. But for that succession planning, you wouldn't be hiring an apprentice. Am I correct on that?

MR. MILES: That's correct. Not until the actual retirement occurs.

MR. JANIGAN: Madam Chair, I am moving into another area. It might be an opportune time for a break.

MS. LONG: Let's do that then. We will take our break for one hour and resume at 1:30.

### --- Luncheon recess taken at 12:30 p.m.

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

MS. LONG: Please be seated.

Mr. Vellone, are there any preliminary matters that you have?

# Preliminary Matters:

MR. VELLONE: I believe the witnesses do have an answer to one of the questions that the Panel put to them this morning.

MS. LONG: Fine. Why don't we get that on the record?

MR. VELLONE: Sure.

MS. HUGHES: So this was in response to the summary of the new hires and the timing of the new hires for 2014.

Exhibit 4, tab 4, schedule 2, pages 4 and 5 summarize the 28 new headcount. The timing of the new hires specifically related to the OM&A expenditures are outlined in Exhibit 4, tab 2, schedule 1, page 6 of 25.

MS. LONG: Thank you, Ms. Hughes.

Mr. Janigan, if you would like to continue?

# Continued Cross-Examination by Mr. Janigan:

MR. JANIGAN: Thank you very much, Madam Chair.

On page 18 of my compendium, it sets out the CPI statistics for 2010 to 2013. And to compare them with your wage increases, I understand that the wage increase that you have been giving your employees averages out to be 3 percent per year for those same years; would you agree with that?

MS. HUGHES: Yes, we would.

MR. JANIGAN: Okay. And can you tell me what efforts that you are making to contain labour costs rising above inflation?

MS. HUGHES: What I would comment on, first of all, is a significant amount of our labour force is subject to collective bargaining agreements.

The wage increases that are reflected up until 2013 are as a result of negotiated settlements with our collective bargaining, and, you know, we do -- as part of that process, we are now engaged in a -- collective bargaining negotiations for the 2014 year, which have not concluded at this point.

So we do, in fact, have a collective bargaining that we utilize comparisons with local utilities and resulting settlements thereof.

MR. JANIGAN: Do you think there is an obligation on the company, when the wage settlements are greater than inflation, to find savings elsewhere to make up that difference?

MR. MILES: I think there's always an obligation on the company to look for saving opportunities, regardless of wage and salary pressures. Yes.

MR. JANIGAN: Well, do you think that when there are agreements, wage settlements that are greater than inflation, that that is a particular driver for you to obtain efficiencies and cost reductions that would help mitigate that increase?

MR. MILES: It can be, depending on the area.

We look from time to time at the way we do things, and if there's other ways of doing things without our employees -– outsourcing, specifically -- we would look at those types of opportunities.

MR. JANIGAN: Okay. I would like to ask you to turn to page 20 of my compendium. And that is -- reproduces Exhibit 4, tab 3, schedule 1, page 2, table 4-17.

It shows that in 2010, CND underspent by about 450,000. The exact number is 451,551. Would you agree?

MS. HUGHES: Yes.

MR. JANIGAN: Among the things that you did not do that you said to the Board in 2010 you would, is to implement monthly billing; is that correct?

MS. HUGHES: That is correct.

MR. JANIGAN: But the Board did give you money in rates as part of your revenue requirement to pay for that change, did they not?

MS. HUGHES: Yes. As part of that decision, the Board gave us -- I believe it was $42,500 in operating costs. We did not switch to monthly billing.

In 2010 as we were going through the rate application, we -- CND was planning on implementing a SAP CIS system. CND subsequently changed its CIS solution, and that solution -- the SAP solution required monthly billing.

We were working on a CIS solution with another utility and the entire solution was going to move to monthly billing.

When CND changed its plan with respect to its CIS system, it went with a different CIS system, which did not require that we move to monthly billing.

MR. JANIGAN: Now, if you use table 4-17, that shows the Board -- 2010 Board-approved and the actual OM&A program costs, can you identify any amount of under-spending, apart from the 42,500, that was related to not implementing monthly billing?

MS. HUGHES: I guess one item comes to mind, in terms of the water billing. You will see that there is a credit under "Water billing" in -- in 2010 actuals.

MR. JANIGAN: Mm-hmm?

MS. HUGHES: Whereby CND was processing water billing on behalf of the city, and, I believe, the region, the city and the region.

And CND was allocating costs associated with the water billing against the revenue that it was earning from water billing.

MR. JANIGAN: Okay. Did that have any relationship with the -- not implementing monthly billing?

MS. HUGHES: No, it did not.

MR. JANIGAN: So there is nothing else here in terms of under-spending that was related to not implementing monthly billing?

MS. HUGHES: Not that I'm aware of, without having gone through line by line.

MR. JANIGAN: Okay. While we're on that exhibit, can I also look at the program line entitled "Tree-trimming maintenance"?

That line showed that you under-spend on tree-trimming for each year from your Board-approved amount from between 100,000 and 165,000; is that correct?

MS. HUGHES: That's correct.

MR. JANIGAN: Can you explain why you asked the Board for 25 percent more dollars in rates than you were -- that you actually spent on tree-trimming subsequent to the same?

MR. SINCLAIR: Yes. If you're looking at a comparison to 2013 versus 2014, our 2013 area of tree-trimming, there were two factors involved.

One factor was we had an extensive overhead rebuild program last year, that required us to take contractor crews off of our planned tree-trimming cycle and redirect them to rebuild work, to get the trees cleared in advance of rebuilding the lines.

The second factor was we did have some overlap between some of our planned rebuilds and our planned tree-trimming schedule. We have our area divided up into four geographic sectors. So that took away slightly from the amount of tree-trimming required, but we -- we did have some savings to budget because of that, but in 2014 we will not have that.

MR. JANIGAN: I would like to turn to page 31 of my compendium, and that contains the -- it is midway through the last decision before CND.

And particularly with respect to the loss of the water billing responsibilities, the Board's decision -- and you will see it highlighted in yellow -- that the -- CND should be able to reduce costs due to the loss of the city water billing contract over time.

And if I take you to page 26 after that of my compendium, which is an interrogatory of Energy Probe 12, with reference to Exhibit 4, tab 2, schedule 1, it seems to me that no costs were actually reduced by CDN (sic) after you lost this contract; is that correct?

MS. HUGHES: Actually, in response to 2.1, Energy Probe 4, we actually did identify that meter-reading expenses were reduced from 528,962 in 2010 to 278,565 in the test year, for a reduction of 250,397.

MR. JANIGAN: Okay. So that reduction that you mentioned, is that incorporated in the 2014 OM&A costs?

MS. HUGHES: So -- yes. So the meter-reading expenses reflect 278,565 in the test year.

MR. JANIGAN: Now, in terms of what is the -- what about the remaining amount from the 603,131 which, I take it, was the revenues associated with the water-billing contract?

MS. HUGHES: So in the 2014 test year we don't have any revenue associated. These were the specific costs that CND was able to identify that it could reduce.

I think, as we highlighted in our 2010 rate application, in many respects some of the costs were fixed and would be difficult to reduce. So, you know, we did, in the meter-reading area.

We've also had a number of changes since 2010 in the customer-information system -- in the customer-service area where, in fact, perhaps call-centre staff who were previously working on water billing continued to take calls on their hydro bill, irrespective of whether there is water and hydro, but we also implemented a new CIS solution and have redeployed some of those resources.

So there are a number of factors that take us from 2010 to 2014.

MR. JANIGAN: Well, let me take you back to the -- when you had the contract. You had $603,000 in revenue coming in. Was that -- were the revenues equal to the costs of providing that service?

MS. HUGHES: Yes. That's how CND had accounted for that, yes.

MR. JANIGAN: And from that amount, you have managed to reduce the costs by $278,000; is that correct?

MS. HUGHES: That is correct. And we've also taken the revenue reduction over that period of time. So the 2010 direction was to increase our -- effectively increase our revenue offset of $209,000, which we have done so, and has carried us forward into 2014.

MR. JANIGAN: Okay. You're getting ahead of me here. You reduced the cost by 278,000 of the 603,000. The remaining costs were used elsewhere, did you say, in the system?

MS. HUGHES: I would say we haven't been able to -- we hadn't identified any further reductions in other costs that would bring those costs down.

MR. JANIGAN: Okay. So they are still in there. The revenues of 603,000 are no longer there, correct?

MS. HUGHES: That's correct.

MR. JANIGAN: And there's been a cost reduction of 278,000 that is attributable to meter reading, did you say?

MS. HUGHES: That's correct.

MR. JANIGAN: Okay. All right. I think I've got that right.

Now, with respect to bad-debt costs, I wonder if you could look to page 35 of my compendium. And it's in response to 6.2, VECC 26. You state that CND has not projected an impact on the 2014 forecast for bad debt, notwithstanding you proposed to hire a credit and collections supervisor.

MS. HUGHES: That's correct.

MR. JANIGAN: Now, has this position been filled yet?

MS. HUGHES: So the position was filled at the end of October but is now vacant. The person in the position has left the organization, so it became vacant, I believe it was March. March. So it was filled at the end of December and open as of now. But we are actively hiring to fill that role, yes.

MR. JANIGAN: Now, what was the loaded annual cost of this position, being salary, benefits, and office costs?

MS. HUGHES: I would say all-in, including all benefits, would be about 110,000.

MR. JANIGAN: Now, did you do a business plan prior to staffing this position or creating this position?

MS. HUGHES: All new hires require a requisition to be completed for new positions, which are reviewed by the vice-president of human resources and the CEO. I can't speak specifically to a business case, but I do know that there is a hiring requisition.

MR. MILES: If I could just add to that. This particular position, in addition to fulfilling a more dedicated role around credit and collection, was also partly succession-plan-related, because the existing supervisor of customer care is a person who -- I am going to get this number wrong, but has been there 30-some years, and is expected to retire within the next year to year and a half. So it was intended that this supervisor would take over from the customer-care supervisor when that happens.

MR. JANIGAN: And when that person took over, would you staff that position that the new hire was in?

MR. MILES: We would have to take a look at it at the time. If it's in a year and a half to two years' time, that may be enough time for us to get a better understanding of how call volumes are going, with respect to all of these new e-services that we're introducing for customers. If call volumes are down, then we would take a hard look at not filling that position when it becomes vacant.

MR. JANIGAN: Well, when you decided to set up the position, surely you must have projected some benefits from a monitoring standpoint of hiring this person on?

MS. HUGHES: From a bad-debt perspective, I think it was -- it's too early to tell at this point. So we didn't have any basis on which to estimate any change to the bad debts. Certainly we hope that that is the case, but bad debts do fluctuate. They fluctuate on an annual basis.

We have in the application tried to utilize a three-year average of bad debts to reflect that in some years they're higher and in some years they're lower.

MR. JANIGAN: Not doing a projection of benefits like this, it means that ratepayers pick up all the costs of the position and don't get any of the benefits for the period of the rate framework. Would you agree?

MS. HUGHES: From that perspective, yes. I think, you know, to add to Mr. Miles's point, the current customer-care department has 16 -- I believe it is 16 permanent staff that report to one customer-care supervisor.

So we have also identified that perhaps the capacity for one supervisor, in light of all of the regulatory changes, the administration of the LEAP program, and various other programs, that one may in fact not be enough.

MR. JANIGAN: Another gap you've discovered, correct?

MS. HUGHES: It is a gap.

MR. JANIGAN: Okay. Next I would like to deal with training and conference calls, on page 37 of my compendium. And it sets out interrogatory -- VECC's 4.2 VECC 10, providing all training conference and travel costs for each year, 2010 through 2014.

Can you tell us why CND's conference seminar and travel budgets more than double from 2012 to 2014?

MS. HUGHES: There's a couple of reasons. In the past, we've -- in prior -- I would say 2010, the conferences and seminars included travel. So now we have broken it out.

In terms of the increase, what I would offer is CND has hired 28 new full-time employees that require training. And so when we look at conferences and seminars and training, we look at those collectively. We certainly have increased training costs as it relates to our apprentices; so as we spoke about, the seven powerline -- or six powerline technicians, meter apprentice, all requiring skilled trades training.

If I look at the 2014 test year expenditures on a total basis and divide that by the number of full-time employees, it is approximately $3,000 per employee.

So we are making an investment in the training of our employees.

MR. JANIGAN: Now, let me just correct my question. I believe I said 2012 to 2014. It should be 2010 to 2014 when I said "doubled."

Finally, I wonder if you could turn up page 38 of my compendium. This is an interrogatory from VECC, 4.2 VECC 13, which asks for, for each of the years between 2010 and 2014, provide the amount for EDA fees, the MEARIE Group, and GridSmartCity LDC membership.

And it is set out in your response that it appears you pay fees to the EDA, which have gone up 47 percent since 2010. Why have these fees increased so dramatically?

MR. MILES: We don't have any details behind the EDA's budgets in their programming.

I would say, though, that during that time period the EDA has been -- has gotten more involved in a number of activities, such as smart grids, some policy matters around smart grids, Green Energy Act conservation and demand management.

So there has been some increase in costs that that organization has faced, but I can't get into the specifics.

MR. JANIGAN: Well, when a supplier increases their costs by 47 percent over that period of time, does that not pique your curiosity?

MR. MILES: It certainly does. And we pay attention to these fees every year, and we look to see what value we're getting for them.

I think particularly in the areas around these new policy introductions, program introductions such as conservation and demand management, the EDA has saved us collectively a lot of money, versus the alternative of each LDC having to, you know, hire their own consultants, lawyers, et cetera, to develop positions on these new programs.

MR. JANIGAN: Is it your understanding EDA is primarily looking after the interests of shareholders, or primarily looking after the interests of ratepayers?

MR. MILES: I believe their mandate is to look after the interests of their members, which are the LDCs themselves, as opposed to the shareholders or the ratepayers.

MR. JANIGAN: Your MEARIE Group insurance fees have increased by 37 percent since 2010. Do you tender the contract for CND insurance, or is it sole-sourced to MEARIE?

MS. HUGHES: So in the years prior to 2013, I believe it was sole-sourced in '11, '12 and '13.

In 2014, as we advised earlier, we did see a reduction in the MEARIE Group insurance benefits as a result of having done a collective review of the insurance with the GridSmartCity.

And so I just wanted to also highlight that MEARIE Group of 979,685 in the 2014 test year will be reduced by the 117,500 that we had identified.

MR. JANIGAN: I take it it was still sole-sourced, though, to MEARIE, right? You didn't go out and get competitive bids?

MS. HUGHES: We -- my understanding of the effort by the GridSmartCity was an evaluation of a couple of insurers.

MR. JANIGAN: Okay. Thank you, Madam Chair. Those are all of my questions for this panel.

Thank you, Panel, for your patience.

MS. LONG: Thank you, Mr. Janigan.

Ms. Helt, I believe you are next.

## Cross-Examination by Ms. Helt:

MS. HELT: Yes. Thank you, Madam Chair.

Good afternoon, members of the witness panel. I have a few questions.

The first question will deal with post-retirement benefits. Board Staff has prepared a compendium. I believe the witness panel has a copy of the document and the Board members also have a copy the document.

We will mark this as Exhibit K1.5.

EXHIBIT NO. K1.5: CAMBRIDGE AND NORTH DUMFRIES 2014 COS RATES APPLICATION - BOARD STAFF COMPENDIUM.

MS. HELT: If we can turn to page 12 of the compendium, you will see, starting at line 13 -- that paragraph and the following paragraph -- there are some highlighted excerpts that I would just like to read out.

CND is amortizing...

"CND amortizes the actuarially determined experience gains (losses) whereby the excess of actuarial gains (losses) over 10 percent of the accrued benefit obligation are amortized into expense on a straight-line basis over three years."

In the following paragraph:

"The amortization amount is approximately $27,000 per year for three years, which amounts to $83,000."

And:

"The amortization of the unrealized (loss) of $210,000 arising in 2012 over the next three years amounts to approximately $70,000."

The question is: If CND is rebasing rates for five years, why not amortize those losses over five years?

MS. HUGHES: I guess that is a possibility.

One of the things that I would say in the area of post-retirement benefits is CND will need to evaluate this policy as a result of adopting IFRS as well in 2015.

MS. HELT: Right?

MS. HUGHES: So at this point, I think the approach was we just did not make any changes to our accounting policy at this stage.

So that -- this is the policy that has been in place.

MS. HELT: Thank you.

And that actually leads into my second question, was whether or not CND has revalued its post-employment benefit obligation at the date of the transition to IFRS, for the purpose of IFRS opening financial statements.

MS. HUGHES: So no, we have not. We plan to undertake that in 2014.

MS. HELT: Thank you. And when would that be available?

MS. HUGHES: We haven't -- we have not engaged an actuary at this point, have not decided on the timing.

MS. HELT: All right. Thank you. All right. That was the only question on post-retirement benefits.

The next questions and the only other questions I will be asking relate to removal costs and Account 1576.

These are dealt with in -- there's some documents in our compendium from page 13 onwards, and perhaps I can direct your attention to page 13 to start.

This is a document that was prepared by Board Staff so it was not filed in evidence. And it was provided to the applicant in advance of today, and I don't believe that there is any objection on the understanding that it is a Board Staff-produced document.

Thank you.

If I could just ask you to look at page 13, and you will see the heading is: "Regulatory accounting treatment for removal costs of retired assets under CGAAP."

Now, you have indicated that your application has been filed under CGAAP; that is correct?

MS. HUGHES: That is correct.

MS. HELT: And the first box there says: "Costs incurred to remove or dispose assets from the site on retirement of the retired assets."

The first step is to determine if an obligation existed at the time of acquiring the assets.

Would you agree with that, in terms of determining the appropriate treatment for removal costs?

MS. HUGHES: In terms of, you know, what has been illustrated here, yes.

MS. HELT: And can you just clarify whether or not an asset retirement obligation existed at the time of acquiring the assets that you have in Account 1576?

MS. HUGHES: Not that I am aware of.

MS. HELT: All right.

MS. HUGHES: So just perhaps to clarify -- I don't know if this will come up after.

In terms of the obligation under Canadian GAAP, it's my understanding that that is a legal obligation to retire the assets.

MS. HELT: Yes. That's correct.

MS. HUGHES: Which is different than under IFRS.

MS. HELT: Yes. Thank you. Can you just clarify for me whether the assets for which the removal costs were incurred by Cambridge were group assets?

MS. HUGHES: Yes, they were.

MS. HELT: And were these group assets whose depreciation or amortization rates determined by the Board previously?

MS. HUGHES: Yes, they were.

MS. HELT: Thank you. As a group asset, would you agree that the -- under the APH article 4.10 -- and this is referenced in the third box, and I do have the reference to article 4.10 as well -- it states that:

"On retirement of such assets the accumulated amortization account shall be charged with the book cost of the property retired and the cost of removal and disposal."

Would you agree with that?

MS. HUGHES: I would agree that is what it says in article 4.10, yes.

MS. HELT: Yes, and then article 5.40, which is referenced in the -- at the bottom of that box, states that:

"Removal costs and salvage recoveries related to retired assets are applied to account 2100 accumulated amortization."

Would you agree with that treatment as well?

MS. HUGHES: That's in accordance with the APH July 27th, 2007, yes.

MS. HELT: All right. So then the -- for CGAAP rate application you would agree that, in accordance with the APH, the treatment of a removal cost for group assets is to charge the removal costs to accumulated amortization?

MS. HUGHES: So my understanding, as I read this and interpret this, is under the capital -- under the -- under CGAAP we would record the salvage in accumulated amortization.

I believe Cambridge and North Dumfries Hydro, as I spoke earlier, instead of putting it to accumulated amortization, we put it to the cost of the asset, effectively the net -- my understanding is the net would be the same.

It would be still within assets, but instead of putting it in accumulated depreciation we put it in the actual costs of the asset. I just wanted to clarify that.

MS. HELT: That's right. And the reason for doing that then and not doing it in a manner consistent with the APH was what?

MS. HUGHES: So I can't comment on what CND was doing prior to my arrival with Cambridge and North Dumfries Hydro as to why they took that approach, putting it into the gross cost, as opposed to putting it into the accumulated amortization. But I do know that it results in the same effect, effectively, on rate base.

MS. HELT: All right. Thank you. If we can turn now to Board Staff compendium, page 31, which is the last page of the compendium. This is from Exhibit 4, tab 2, schedule 1, page 15 of 25, and it deals with changing in accounting estimates and capitalization policies.

You will see three-quarters down the page there is a table, 4.9, and the removal costs are highlighted. The questions I have relate to the 2014 test-year estimate of 806,000 for removal costs, but I believe you clarified that this morning to indicate it is more in line with 716,449; is that correct?

MS. HUGHES: That's correct.

MS. HELT: All right. It appears that the removal costs have been increasing steadily from the 2012 actual through to the 2004 (sic) test. Do you have an explanation why the amounts have increased?

MS. HUGHES: So it really is the nature of the assets that are being removed. So in 2014, as part of the 806, which is now 700, one of the largest projects is the Franklin Boulevard road relocation.

So, you know, it does depend on the nature of the assets that are being removed.

MS. HELT: All right. And does CND remove or does it abandon things like buried plant conduits, cables, that sort of thing?

MR. SINCLAIR: Yes. There is abandonment on underground assets for some of the assets. So if you looked at our individual removal costs by project, on overhead projects there are a greater amount of removal costs than on an underground project, because you just can't physically remove all of the older underground assets.

MS. HELT: So then the costs of -- for removal for those that are related to the buried plant would be significantly less?

MR. SINCLAIR: Yes, that is correct.

MS. HELT: All right. If we can look at Board Staff compendium page 30, there is a table there, 2-15, capital expenditure summary, 2009 through to 2018.

And you will see in the total line, which is the second from the bottom in that chart, from the test year 2014 there is an amount of 17,649, and then each of 2015, '16, and '17, the number declines going forward. Can you explain why that would be?

MS. HUGHES: So again, I would highlight a couple of things. One is the system renewal capital expenditure reduces over time, and so our renewal program is declining as we renew our distribution system plant. So that is, you know, that's -- there is a direct correlation with the reduction in the renewal program.

MS. HELT: Right.

MS. HUGHES: In other areas in the system access, that's a customer -- customer-driven category, where road relocations of a similar -- would be included in that category.

And outside of the Franklin Boulevard road relocation, I am not aware of any other significant project in the later years. Are you?

MR. SINCLAIR: Yes. Our relocations for the next two years are very high because of Franklin Boulevard. It is the largest relocation project that we have ever been required to do. In latter years we returned to a more normal level of spending, as far as our road relocations.

MS. HELT: Thank you. Does Cambridge have any projected removal costs included in 2014, but the actual removal of plant for the project would be in the subsequent year?

MR. SINCLAIR: Not as planned. We plan to complete all our work in the year that it is budgeted. We sometimes do have carryover for one reason or another into the following year, but we plan not to, and we made it a priority to improve on that basis to make sure that we get projects completed in the calendar year as planned.

MS. HELT: Thank you.

I am just going back to the questions that I had with respect to your current rate application being filed under CGAAP. So that is the context.

And under CGAAP you have also had changes to the capitalization -- or not under CGAAP, but with respect to that, there have been changes to capitalization and depreciation expense policy starting in 2012.

Can you explain whether or not there are any other changes that could impact Cambridge when it adopts IFRS in 2015 but which it has not proposed to make in this particular application?

MS. HUGHES: The only thing that comes to mind is with respect to the post-retirement benefits. There may be a change with respect to IFRS.

In the area of property, plant, and equipment, I think for the most part we, you know, substantially completed our transition to adopt international financial -- or modified IFRS for purposes of this.

So I think that is one of the driving factors around this issue around the capitalization policy, in that, yes, we filed under Canadian GAAP and so I appreciate the reference to the APH with respect to where to put removals, but if I understand the Board's direction in moving to modified IFRS for ratemaking purposes, then, you know, the fact that we used to capitalize these costs -- whether we put it in the gross capital amount or in the accumulated amortization amount, we used to capitalize these amounts.

In moving and transitioning to IFRS, we can't make the direct correlation under international financial reporting standards, and so we believe that that is transitioning to IFRS and so it should be on account of expense.

And I think that is the basis on which we have made our determination.

MS. HELT: Okay. Would you agree that the -- just as we're talking about the capitalization policy -- that the change applies prospectively to newly acquired assets?

MS. HUGHES: So we -- in terms of the adoption of international financial reporting standards?

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

MS. HUGHES: Yes, I would agree that is prospectively.

MS. HELT: Thanks. I just have one other, one or two other questions.

The first one is if it would be possible for you -- if it's not too much work -- to recast your continuity schedule starting with the 2012 year, in order to reflect the approach outlined as it is set out in the APH regarding a CGAAP standard.

So in other words, if the removal costs were characterized or booked to amortized depreciation as opposed to a cost, if the Panel so determines that that is the appropriate way to treat these removal costs.

Would you be able to undertake to provide that?

MS. HUGHES: Yes, we could.

MS. HELT: Thank you. That will be -- Panel, I misspoke earlier with an undertaking number and called it J1.7. I have corrected it with the reporter. So right now we're actually on J1.9.

So J1.9 will be to provide a recasted continuity schedule starting with 2012, to reflect the approach outlined in the APH as it pertains to the CGAAP accounting standard.

UNDERTAKING NO. J1.9: TO PROVIDE A RECASTED CONTINUITY SCHEDULE STARTING WITH 2012 TO REFLECT THE APPROACH OUTLINED IN THE APH, AS IT PERTAINS TO THE CGAAP ACCOUNTING STANDARD.

MS. HELT: Thank you. If I can just have one moment.

Thank you, panel. No further questions.

MS. LONG: Thank you, Ms. Helt.

Mr. Shepherd, you are next. I do want to warn you of one timing issue that we have. We need to break from 2:40 to 3:00. We need to take our afternoon break at 2:40 because of a commitment of the Panel.

MR. SHEPHERD: I will ensure there is a lull in the excitement.

MS. LONG: So if you can schedule your cross knowing that.

MR. SHEPHERD: For time-check purposes, I do not expect to be more than an hour.

MS. LONG: Thank you.

## Cross-Examination by Mr. Shepherd:

MR. SHEPHERD: Hi, I think I know all of you. My name is Jay Shepherd, School Energy Coalition.

I want to start with one quick question on removal costs.

If I understand correctly, there is two different issues on removal costs. The first issue is on a go-forward basis, what's the correct way to account for it and how should it be reflected in your revenue requirement, right?

And you say it should be a current expense, and the other alternative is to add it to rate base?

MS. HUGHES: Correct.

MR. SHEPHERD: You collect it either way; it is just when you collect it, right?

MS. HUGHES: That is correct.

MR. SHEPHERD: The second question is: What about 2012 and 2013? And you propose to treat them as -- treat this as an expense in those years, as you propose going forward. And the question is whether that complies with the Board's policy with respect to the transition to IFRS.

And if you can't expense it in those years, then the result is that your rate base is increased and you recover it over the life of the rate base, right?

MS. HUGHES: Correct.

MR. SHEPHERD: Either way you still recover it?

MS. HUGHES: Yes, correct.

MR. SHEPHERD: The question is whether we pay your cost of capital on it along the way.

MS. HUGHES: Correct.

MR. SHEPHERD: And if the Board determines that, on the second issue, that you didn't comply with the Board's policy on IFRS transition, how do you reconcile your books, your financial books, with your regulatory books? Is this a permanent difference?

MS. HUGHES: As I understand it, given that this is a -- currently it's a debit in our regulatory variance account, we would clear the account by crediting the variance account and debiting the capital for the amounts of 333 and 639 K.

MR. SHEPHERD: But your accountants have already audited on the basis that you expensed these items?

MS. HUGHES: They have. This would be an event as a result of a Board decision in 2014, which we -- you know, based on the accounting treatment. If we have a Board decision that would allow us to capitalize, then I understand that for financial statement purposes, we would be able to now capitalize that amount.

MR. SHEPHERD: So I don't understand. I thought that the reason you're saying to the Board that you should be able to expense it is because that's the rule. That's the accounting rule.

MS. HUGHES: So that is the -- yes.

So I guess just to step back, there obviously are rate-regulated issues with respect to IFRS as well, as to whether or not you can record regulatory variance accounts under IFRS.

So I can't say for certain that -- I guess I should step back and say I can't say for certain what we would be able to do in 2014 if we were not allowed to.

I think that there would be a recognition that it is a regulatory difference between IFRS and Canadian GAAP, and then we would have to determine the appropriate recognition of that.

So I guess I would characterize it that way.

MR. SHEPHERD: And the last thing about that is you were asked about AROs, asset retirement obligations, and I understand that in '12 and '13 you couldn't have treated them as AROs.

But today, if you have a constructive obligation to clean up a site, then doesn't that mean that, going forward, you should be accounting for AROs today?

MS. HUGHES: So upon the adoption of IFRS, Cambridge and North Dumfries Hydro would have to evaluate whether it has a constructive obligation with respect to its distribution system plant. That will be based on fact, pattern, and whether we have established past practices.

So it will be evaluated. We have not done that evaluation at this point.

MR. SHEPHERD: And under modified CGAAP, that wouldn't be the case, because you don't have a legal obligation to clean up a site?

MS. HUGHES: That is correct.

MR. SHEPHERD: Okay. Thank you. Then I want to turn to the cost of capital issue. We do have a compendium, Madam Chair. I felt guilty; everybody else had one. So I wonder if we could give that a...

MS. LONG: An exhibit number?

MS. HELT: Yes. That will be K1.6, School Energy Coalition compendium.

EXHIBIT NO. K1.6: CROSS-EXAMINATION COMPENDIUM FOR SEC.

MR. SHEPHERD: If you could start at page 2, I guess this is for you, Ms. Hughes.

You were asked to provide material to your board of directors, and what we have done -- you gave us both the 2013 and 2014 budget materials. We have only included in this package the 2014 stuff, and not all of it because it is a huge package; just some of the pages of it.

But you recognize all this stuff?

MS. HUGHES: Yes, I do.

MR. SHEPHERD: Okay. So if you could go to page 3.

You actually asked for approval of your modified 2014 budget in August, right?

MS. HUGHES: That's correct.

MR. SHEPHERD: So you made a comment earlier about how your budget was approved earlier in the year, but the budget that this application is based on was actually made in conjunction with the application, right?

MS. HUGHES: That's correct. So essentially we -- just to clarify, in 2012 there was a budget prepared that had both 2013 and 2014 budgets. So it was a two-year budget, to facilitate the fact we were going in front for the cost-of-service application. That --

MR. SHEPHERD: Can I just stop you? You don't normally do a two-year budget, right?

MS. HUGHES: I think this was the first year that Cambridge and North Dumfries had undertaken a two-year budget.

MR. SHEPHERD: The reason for doing two years was because you wanted to have a budget so that you could then do your application.

MS. HUGHES: Correct. That was the basis upon which to do two years, yes.

MR. SHEPHERD: Normally if you weren't doing a cost-of-service application you would get a budget in the fall for the next year, right?

MS. HUGHES: Yes. But we -- I mean, we haven't made that determination as to whether we will continue on a two-year cycle. I think that there are benefits. We do do a five-year plan, and I think that there are some benefits to doing the two-year budget, but we haven't made that determination, but that was the precedents on which this was done, yes.

MR. SHEPHERD: Okay. Thanks. All right. So can you go to page 14 of our materials? This is a cash-flow projection that you provided with your -- to your board of directors with your budget, right?

MS. HUGHES: That's correct.

MR. SHEPHERD: And this is from August, right?

MS. HUGHES: That's correct.

MR. SHEPHERD: And so Mr. Aiken earlier was talking to you about the financing components of this. And if you look at the -- there's a column, "budget 2014". That is from January 2014, right?

MS. HUGHES: Yes, that's correct.

MR. SHEPHERD: And then there is a column, "revised budget 2014", and that's what you've proposed in August -- it was actually approved in September?

MS. HUGHES: Correct.

MR. SHEPHERD: Okay. So this is -- the September line is revised budget 2014, right?

MS. HUGHES: Correct.

MR. SHEPHERD: And so in the budget 2014 you had $10 million of new financing at 3.75 percent.

MS. HUGHES: Correct.

MR. SHEPHERD: Okay. And then you did a -- you redid your budget, because you were doing your application, and you changed how you were going to finance your capital. Your capital went up from 15.5 to 17.7, right?

MS. HUGHES: Correct.

MR. SHEPHERD: And you said, Well, okay. We're going to finance the 17.7 plus the 1.9 million dividend that we're expected to pay, we're going to finance those two amounts through 5.5 million FFO, funds from operation, right?

MS. HUGHES: Yes.

MR. SHEPHERD: 5.5 million FFO, yes?

MS. HUGHES: Yes.

MR. SHEPHERD: And 9.3 million cash you already had on hand at the beginning of the year? Yes?

MS. HUGHES: Yes.

MR. SHEPHERD: And $4.7 million of bank borrowing.

MS. HUGHES: Correct.

MR. SHEPHERD: And those three magically add up to $19.5 million, which is the same as the capital spending plus the dividend, right?

MS. HUGHES: They do, yes.

MR. SHEPHERD: Okay. And the result of that -- tell me whether this is right -- the result of that is two things. First of all, your cost to borrow decreases by $375,000, roughly, right, because you don't have that $10 million that you are borrowing anymore.

MS. HUGHES: Okay. It is 8 million -- was 8 million, right, not 10. It's 10... Yes.

MR. SHEPHERD: So your cost to borrow goes down by $375,000, right?

MS. HUGHES: Correct.

MR. SHEPHERD: And your interest revenue would also go down, because you don't have the $9.3 million any more.

MS. HUGHES: That's correct. It would go down, yes.

MR. SHEPHERD: So effectively what you did is you said, We don't actually need to go out and borrow another $10 million. We have enough money to pay our bills this year. We can defer that until next year. Right?

MS. HUGHES: I mean, I think that the budget projection was -- you know, the cash flow was clearly done on the basis of, if we step back, the original 2013 budget, if you look at the budget 2013, we had anticipated $2.6 million in cash at the end of 2013.

And so the initial budget, given that cash was only expected to be 2.6, I think that there was, in the cash-flow modelling, an estimation that we would do financing in 2014.

But having done a re-forecast of 2013 and determining that in all likelihood we would have a level of cash of $9.3 million, it would not make sense from a business perspective to incur debt that we didn't need in the 2014 test year.

MR. SHEPHERD: You're saying the difference between 2.6 million and 9.3 million in cash at the end of 2013, that came as a surprise to you between January and August 2014?

MS. HUGHES: So I guess to put it in perspective, I can't speak to the initial budget, other than my understanding of what's here.

I joined the organization in February of 2013. And so I certainly, you know, in conjunction with the management team, would have had discussions around the revisions to the forecast and my views on when the organization should finance in consultation with the CEO as well.

MR. SHEPHERD: You knew when you got your budget approved in January 2013 that you had $9 million in the bank, right? You knew it, because that's in fact what you had, what you expected, right?

MS. HUGHES: Yes.

MR. MILES: Yes.

MR. SHEPHERD: That was your plan.

MR. MILES: Correct.

MR. SHEPHERD: Okay. Let me -- here's the problem I am having with this. Even though you found a less expensive way to finance -- and more power to you, good thing to do, right -- the way the Board's rates work, you don't have to pass any of that saving on to the ratepayers, right? You can pretend that you borrowed, actually, at 4.12 percent, right?

MR. MILES: That's the way the rate-making policy works. I think you raise a good point here. I mean, you have to separate the way we manage and run the business from a financing perspective with the way rates are set. I understand there's a difference, and they can diverge from time to time.

MR. SHEPHERD: Okay. And so the result is you're going to be able to do it cheaper -- and by the way, there is also interest income, right, which normally under the Board's policy, the ratepayers get an offset for that, right?

MR. MILES: Correct.

MR. SHEPHERD: But under your new financing approach the ratepayers don't get anything for that, because that part of it, you say it flows through, right?

MR. MILES: I wouldn't say it is a new financing approach. I mean, this is the way I think most businesses conduct themselves. They don't borrow in advance of actually needing the capital. Why would they? It just doesn't make any sense.

MR. SHEPHERD: Well, I guess the question is, why would you finance short assets that are long? That's what you're doing, right?

MR. MILES: We are financing on a very short-term basis using our operating line until we get a critical mass sufficient enough to go out and lock in long-term debt as efficiently as we can possibly do it, rather than in smaller chunks.

MR. SHEPHERD: Okay. So your actual cost of financing, instead of being the 4.12 percent that is in your application -- it is 4.12, right?

MR. MILES: Hmm-hmm.

MR. SHEPHERD: It is actually -- for 4.7 million it is 1.15 percent?

MR. MILES: Sorry. I think the new rate is 4.96.

MS. HUGHES: That's what we're using as our long-term --

MR. MILES: And the Board-approved rate was, what, 4.88. You were quoting 4.2.

MR. SHEPHERD: Okay. So 4.88. So instead of -- you are going to collect in rates at 4.88, right? That is what you are proposing?

MS. HUGHES: So our weighted average debt percentage is 4.96 percent in our application.

MR. SHEPHERD: Yeah, sorry, that is not what I'm asking about.

The 35 million and the 3 million, those are already set, right?

MS. HUGHES: Correct.

MR. SHEPHERD: We know what those cost.

MS. HUGHES: That's correct.

MR. SHEPHERD: It is the rest, the other $35 million of your rate base, of your debt component of rate base, that is the part that you are proposing to use 4.88, right?

MS. HUGHES: No, we're not. We're proposing to use the 4.96 percent. We had corrected the record --

MR. SHEPHERD: 4.9. Okay. Great. So you're going to collect -- on that 35 million you are going to collect at 4.96 percent. But in fact, the cost to you is going to be -- for 4.7 million is going to be 1.15 percent, right?

MR. MILES: Correct.

MR. SHEPHERD: And for the balance of it, it's going to be cash that you had in the bank, on which you were getting an interest rate of, what, half of 1 percent?

MR. MILES: Around just a little over 1 percent, but, yes.

MR. SHEPHERD: 1 percent. So you are going to finance that at, call it 1 percent total, but you are going to charge the ratepayers 4.96 percent. That is the bottom line here, isn't it?

MR. MILES: That's how it turns out for the test year, yes. But we're simply following the Board policy as it relates to capital structure and rate-making.

MR. SHEPHERD: Okay. Thank you.

I am moving now to OM&A, Madam Chair. Do you want to break early, or do you want me to go for another five minutes?

MS. LONG: Why don't we break now. I think it is a convenient time. And we will come back at five to 3:00.

### --- Recess taken at 2:35 p.m.

### --- On resuming at 2:58 p.m.

MS. LONG: Please be seated.

Mr. Shepherd?

MR. SHEPHERD: Thank you, Madam Chair.

Witnesses, I wonder if you can go back to page 3 of our materials; this is K1.6.

Ms. Hughes, this is your memo to the Board on the changes to your budget, right?

MS. HUGHES: That's correct.

MR. SHEPHERD: And it explains in the first paragraph under "Revisions," it explains that the reason you are redoing the budget is because now, having gone through your cost-of-service application, you realize that you want to make some changes, right?

MS. HUGHES: Actually, I believe it was on the basis that, given the timing of when the application is filed, October the 1st, we wanted an opportunity also to reflect what had transpired in 2013.

So we made a number of assumptions about activities in 2013, and we wanted to ensure that the 2013 bridge year -- as part of the rate application -- reflected the most recent information, as well as the 2014 test year.

MR. SHEPHERD: Okay. So that is not what this says, right?

What this says is that you changed your 2014 budget in the process of completing the cost-of-service application? Isn't that what it says?

MS. HUGHES: Yes, that's what it says, but I also wanted to provide the context of the 2013 bridge year is important to establish as well.

MR. SHEPHERD: And then you give the Board some highlights of what the changes to the budget are, and you talk about changes in timing of planned initiatives and the IT strategy, right?

MS. HUGHES: Yes.

MR. SHEPHERD: This is supposed to be your highlights, right?

MS. HUGHES: Yes, it is. Yes.

MR. SHEPHERD: Where is the change in your financing? You were going to borrow 10 million and now you are not; where is that?

MS. HUGHES: It hasn't been highlighted in this memo.

MR. SHEPHERD: Why not?

MS. HUGHES: Because I actually didn't anticipate that it was a change. How do I describe this...

MR. SHEPHERD: They approved a budget in which you were going to go out to the market and borrow $10 million; that is a big deal for you, right?

MS. HUGHES: So what I would say is my understanding of the original 2013 budget is there was a five-year projection and a model prepared, upon which it reflected in the cash flow statement that there would be borrowings required of approximately $10 million.

I do not believe that there was any documentation on a financing arrangement that had been planned. I believe it was simply a forecasting model, highlighting a cash flow projection that would require financing, but I don't believe it had -- in any documentation that I reviewed in the materials going to the Board, did it have anything in the original budget in relation to financing.

But perhaps Mr. Miles could confirm.

MR. MILES: No, that's correct. We haven't even got to the stage yet where we have put in front of our board a comprehensive financing plan.

The numbers that are reflected in the budget and in the cash flow statement, I would characterize more as placeholders, as opposed to a specific plan to go borrow $10 million.

MR. SHEPHERD: So the $15 million in 2015, for example, that is a placeholder too, right? You might borrow that in 2014?

MR. MILES: Not likely to occur in 2014, no.

But it could change in 2015, as we have a better -- some better clarity around our capital program, as we get into 2015.

MR. SHEPHERD: Why do you think it is not likely you would do it in 2014?

You were going to borrow in 2014 and you changed that in the space of a few months. Why couldn't you change it again?

MR. MILES: If we were to borrow in 2014, we would -- one of the financing strategies that we're looking at is a private placement of debentures.

MR. SHEPHERD: Mm-hmm.

MR. MILES: To access that market, there's typically a minimum size requirement, around the $30 million -- I will pick a round number -- 30 million and up, to efficiently do that kind of a transaction.

So if we were to go out and borrow -- and we believe right now that that is probably the most efficient way to finance our long-term capital. That's not to say that we've made that decision, but that's what we believe right now. So if we were to go out and borrow $30 million this year, we would be sitting on an awful lot of cash for the next year and a half to two years.

MR. SHEPHERD: Why is it suddenly 30 million and it was 15 million before?

MR. MILES: The 30 million I referred to is kind of a minimum for accessing the private placement market.

MR. SHEPHERD: So when you told your board you were going to borrow 10 million in 2014 and then you told this Board that -- in your material, or your own board, I guess, as well, you are going to borrow 15 million next year, neither of those is correct? Because you're not?

MR. MILES: It depends on how we actually -- what we actually choose as a financing strategy as we get closer to actually executing it.

MR. SHEPHERD: If you could go to page 4 of our materials, you will see that there are changes to your net income budget.

And the thing I didn't see here is the reduced interest cost. Can you help me with that?

MS. HUGHES: We didn't highlight that as an item in this particular memo.

MR. SHEPHERD: Well, it is adding and subtracting, right?

So you are reporting things that are $40,000, but you didn't report $375,000?

MR. MILES: It would have been on the P&L.

MS. HUGHES: I -- You know, as I was preparing this memo, it was in the context of, you know, significant -- I wouldn't say that the interest is not significant, but it was very much focussed on the significant drivers, which would be OM&A and capital.

I think that there's a recognition that the interest expense is a component, but it wasn't a significant highlight at this stage.

MR. SHEPHERD: If you can go to the next page, page 5, you have a -- you are reporting to your board of directors on the impact on rates.

So, for example, you say here for the GS over 50 -- which is the schools, right? A 16 percent distribution rate increase; do you see that?

MS. HUGHES: Yes, I do.

MR. SHEPHERD: That is still roughly true, right? It hasn't changed by much?

MR. MILES: Roughly.

MS. HUGHES: Yes. It has not changed, roughly. That's correct.

MR. SHEPHERD: Then you have this "Total bill impact" line, in which you are telling your board of directors: Well, residential ratepayers will get a 12 percent bill decrease, and small business will get a 14 percent bill decrease.

Explain that.

MS. HUGHES: So I think we try to provide information to our board of directors that provides both the distribution rate impact as well as the total impact.

The total bill impact is often what is seen in the newspapers as part of the public notification, and it is important for us to communicate to our stakeholders the impacts on both the distribution revenue and the total bill impacts.

So we're simply trying to provide a wholesome overview for our board.

MR. SHEPHERD: Well, no. That's fine, but I don't know where you got a 12 percent decrease in residential bills.

MS. HUGHES: So one of the things that I would highlight at the time that this memo was prepared -- and we did file in our application a correction to the regulatory variance accounts as a result of the cost of power. And I can't recall the reference, but we underwent a review by Board Staff on how we accounted for the regulatory variance accounts with respect to cost of power.

So this memo was done prior to that correction having been made.

MR. SHEPHERD: So these favourable bill impacts, they were actually based on the -- on your assumption that you were going to give back to the ratepayers $5 million of their money that you had in hand, over one year, right?

MS. HUGHES: That's correct, yes.

MR. SHEPHERD: And it turned out that wasn't right?

MS. HUGHES: Portions of it were revised, yes.

MR. SHEPHERD: Okay. On the next page, page --

MS. HUGHES: Sorry, if I could just correct that, I believe the quantum is still the same, 5.2 million, subject to any adjustments as a result of removal.

The distribution between rate classes changed. So the quantum did not.

MR. SHEPHERD: All right. Of course this is not the total, total bill, right? Because you haven't included any of the commodity costs, right?

Global adjustment isn't in there for this year because you wouldn't have known it then, right?

MR. BROOKER: No. The attempt was made to include everything at that time.

MR. SHEPHERD: But you wouldn't have known that this year you would have a 30 percent OPG rate increase?

MR. BROOKER: Exactly.

MR. SHEPHERD: On the next page, you talk about the fact that you are assuming that your cost-of-service application will be approved as filed, and that -- and tell me whether this is a fair description. If the Board doesn't approve everything, then you will have to adjust your budgets accordingly, right?

MS. HUGHES: Yes, I think -- we clearly state that we would have to try to mitigate, yes.

MR. SHEPHERD: Okay. One of the things you say here -- Mr. Miles, you said earlier that it is going to be three or four years until you have your 24/7 control room, but this says you're going to have it in '13 or '14.

Tell me about that.

MR. MILES: Well, it assumes -- it's the starting point for implementing a 7/24 control room.

We have made it clear with our board that because of the training requirements of the new hires, it will take three to four years before we can have a fully operational 7/24.

MR. SHEPHERD: So when this says it assumes the implementation of a 24/7 control room, what you mean is in 2016 or so?

MR. MILES: Correct.

MR. SHEPHERD: Okay. And then you are actually anticipating that you may be able to do that with other LDCs, right?

MR. MILES: We have had some discussions with other LDCs around the concept of a shared regional control room, yes.

MR. SHEPHERD: Okay. And --

MR. MILES: And those discussions are still underway.

MR. SHEPHERD: What is the status?

MR. MILES: The status is, we've -- there were six of us initially that were discussing the concept, and the latest is we have broken into two groups of three and three, and we are studying the concept of merging into one control room in a kind of a two-step process.

What we discovered when we looked at this concept is that there is quite a bit of complication with respect to -- you know, in a control-room environment there is lots of different systems that are used, SCADA systems, GIS systems, different CIS systems for accessing customer records, different outage management systems, even.

So these all have to be carefully looked at amongst the six parties, with a view to, how do we migrate to a common platform.

MR. SHEPHERD: So you have -- this is interoperability issues.

MR. MILES: It is interoperability issues, and it is still something we would very much want to pursue. Having said that, it is not going to happen overnight.

MR. SHEPHERD: If you go to the next page, we talk about -- you talked earlier about -- with Mr. Janigan about the investments you're making in the future. And this is talking to your board about the fact that you are investing in certain things and it has short-term impacts on your budget, right?

MR. MILES: Correct.

MR. SHEPHERD: In the long-term it is going to benefit, in the sense that your costs are going to go down, right?

MR. MILES: Costs -- unit costs should go down, correct.

MR. SHEPHERD: And so you are going to get a return on this investment.

MR. MILES: That's our expectation, yes.

MR. SHEPHERD: Okay. And -- but the return is going to be that during your IRM period -- so the ratepayers are going to pay for it in rates, and then you are going to get the benefit for the shareholder during the IRM period; is that right?

MR. MILES: Well, that depends on the timing of when the savings and productivity savings ultimately arise. But I also should point out that not all of these investments were made solely for the purpose of productivity improvements. Some of them were in response to customer expectations around new ways of delivering service to them, communications, et cetera, and also reducing risk.

MR. SHEPHERD: Understood. Just hold that spot.

I wonder if you can go to the VECC compendium, K1.4, at page 14. This is the -- do you have that? This is the second page of a list of new FTEs for 2013, and the total $1.2 million of additional costs. But here's the thing I want to ask about. It says, And by the way, we're going to save $645,000. I couldn't find that in your cost drivers anywhere, that $645,000.

Can you show me where that is, where you are saying, Yes, we have these increases, but here's the offsetting decrease for savings? Can you show us where that is?

MS. HUGHES: So you actually won't see that specifically in the driver table. There is a couple of things. One is, I think the note also says "not all realized in 2013". So discussions with the Board would be around, some of these savings will occur over time. So they won't necessarily occur in '13. It will be over a period of time.

The other element is, in respect of these new hires, some of these new hires are engineering hires with overtime, and some of the engineering hours are capitalized, so not all of the savings are true OM&A savings. There are savings also as part of the capital program.

MR. SHEPHERD: We didn't see anything in the capital program that is talking about these savings either, did we?

MS. HUGHES: I --

MR. SHEPHERD: There is nothing in your application about this.

MS. HUGHES: No, not that I can recall.

MR. MILES: Not in the test year, no.

MS. HUGHES: Not in the test year, no.

MR. SHEPHERD: If you can go to page 9 of our compendium. This is your description to your board of directors of how you went from your OM&A budget from January to your OM&A budget for September, right?

MS. HUGHES: Yes, yes.

MR. SHEPHERD: Okay. And so the first thing that strikes me is you've got $117,000 of additional FTEs. So does this mean that you added more people after January? That is, your budget changed, and you said, We're going to add more after that?

MS. HUGHES: Yes, we did. I believe it was two positions. One was the accountant position, so it wasn't in the original budget. I believe the other one was the HR specialist position.

MR. SHEPHERD: And then if you move down a couple of lines you will see "reallocation of resources". This is -- your OM&A budget is going down at least in part to the tune of almost $400,000, because you're capitalizing more of your people, right?

MS. HUGHES: So, yes. This item specifically arose as we were going through the budget exercise and doing a reconciliation, principally in the operations and maintenance area, whereby we take the total of our staff and allocate. So our line technicians and meters are working on both capital projects and operating projects.

And as we went through the reconciliation process, I identified a couple of areas whereby there were more resources allocated to operating, in terms of hours, more hours than were actually available, and so it resulted in a revision between operating and capital.

MR. SHEPHERD: So this isn't an operational change, this is just, you got the accounting right.

MR. MILES: Based on the prior years' experience.

MS. HUGHES: Based on the prior years' experience, yes, like, in terms of the hours of work, yes.

MR. SHEPHERD: All right. And then you have an IT cost increase. Is that also FTEs, by the way?

MR. MILES: No. That one specifically relates to disaster-recovery services, third-party disaster recovery.

MR. SHEPHERD: Okay. And then you have 307, removal costs, which we have talked about. But this is not the amount for 2014. This is the additional amount for 2014 over and above your previous budget, right?

MS. HUGHES: Correct, that's correct.

MR. SHEPHERD: So this would be, you had a budget of 500, and now you have a budget of 800.

MS. HUGHES: That's correct, based on the capital projects, yes.

MR. SHEPHERD: All right. I understand that.

I wonder if you could turn to the next page. And I just -- I just want to ask two things about this. The first is -- let me set this up.

You are starting at 2012 actuals, and you are going to -- that's at the top right -- top left. And you are going to 2014 revised budget at the bottom right.

MS. HUGHES: Correct.

MR. SHEPHERD: That is the point of this, right? It is the drivers of the change.

MS. HUGHES: Correct. To our 2013 projection.

MR. SHEPHERD: Okay. So a million-325, you will see here on the left-hand column, that is actually something that you included in 2012, and so you are saying basically our starting point is overstated.

MS. HUGHES: So that was our -- the result of our smart meter decision. CND was required to record $1.3 million in operating expenses in 2012 in relation to expenses incurred in prior years. So it was a disposition of a variance account. So it flowed through the income statement in 2012.

So what we were trying to do was normalize and take that out, because --

MR. SHEPHERD: It was actually spent in '10 and '11, right?

MS. HUGHES: Correct.

MR. SHEPHERD: Okay. So really, that shouldn't be a '13 amount. You didn't actually reduce your expenses in 2013, right? It is an accounting change.

But actually, your 2012 actuals were a million-325 less than the number here. True?

MS. HUGHES: They were less -- no. In terms of the audited financial statements, they were included. So -- but they're not -- it's not a cost of 2012, I guess is how I would characterize it.

MR. SHEPHERD: Okay. All right. And so really what you -- your increase from 2012 to 2013 is about $2.4 million, right?

MS. HUGHES: If you take that out, yes.

MR. SHEPHERD: Okay. And that would be -- in terms of what you actually spent on operations, it would be about $2.4 million increase, right?

MS. HUGHES: Correct.

MR. SHEPHERD: And then you had another million the next year, 1.1 million the next year.

MS. HUGHES: Yes.

MR. SHEPHERD: Okay. And the bulk of that, if I am -- tell me whether this is right. The bulk of that is these three lines: "New FTEs", "MEARIE collective bargaining", and "increase in benefit costs". Between the two years it is $2.25 million.

MS. HUGHES: Yes, that is correct.

MR. SHEPHERD: And that's what really drove your increase in OM&A. It is because you added a bunch more people.

MS. HUGHES: Yes. That's a large part of it, yes.

MR. SHEPHERD: Okay. I just wanted to make sure I understand that.

I wonder if you could turn now to page 15 of our materials. And this is a series of questions on your IT strategic plan.

Now, if I understand your application correctly, a significant increase in emphasis on IT is a lot of what's driving your new -- your increased budget, right?

MR. MILES: It's a large component, yes.

MR. SHEPHERD: Yes. Okay. So we asked a bunch of questions about that. And if you could go to page 18, we're asking about a number of the projects that are listed in your strategy.

And the first is the predictive maintenance integration project; do you see that, on page 18?

MR. MILES: Yes.

MR. SHEPHERD: So there's money in rates for that, right? Your application includes some costs associated with that project right now, right?

MR. MILES: It is one of the projects, yes, included in 2014.

MR. SHEPHERD: So we're paying for it, right?

MR. MILES: Mm-hmm.

MR. SHEPHERD: Okay. What are the benefits of that?

MR. MILES: The benefits that will arise will ultimately be in the area of reliability. And I am talking about not IT reliability, but system reliability.

If we're able, through better analysis of the data that we have available to us, to pre-identify problem spots in the network, we should be able to fix them before there is a problem. That is the essence of --

MR. SHEPHERD: You will also save money, right?

MR. MILES: That's correct. There's less --

MR. SHEPHERD: It's a lot cheaper to fix something before it is broken than to fix something after it is broken?

MR. MILES: Correct.

MR. SHEPHERD: Okay. But you haven't included any of those benefits in your application, have you?

MR. MILES: No, we haven't.

MR. SHEPHERD: On the next page, you will see you're talking about a project called a comprehensive field asset management program, which is tool provisioning and training? Is that right?

Describe what this is.

MR. MILES: Ron, do you want to...

MR. SINCLAIR: Yes. We need to better manage our field assets. I mean, we have committed, as part of the Distribution System Plan, to do an asset inventory, a more comprehensive asset inventory of our whole system by -- in 2017.

MR. SHEPHERD: Sorry, can I just stop you for a second? When you say "field assets" do you mean, like, poles and wires? Or do you mean, like, tools to fix things?

MR. SINCLAIR: No. Poles, wires, transformers, cables, to -- we're aiming to more effectively manage our distribution assets.

MR. SHEPHERD: Okay.

MR. SINCLAIR: So there are technological improvements that can be made to more effectively manage that. We refer into our Distribution System Plan about augmenting our GIS information, our geographic information system. That is one part of it.

Another part of it is getting more mobile field technology to get away from a lot of paper records, which are hard to share with others throughout the organization.

So it is an effort for improvement.

MR. SHEPHERD: One of the things I saw somewhere here is that you might have field personnel, when they're actually at a site, be able to look at a schematic on a tablet that is back on your central server, right?

MR. SINCLAIR: Yes. And we have started some of that work with our supervisors. And we're looking to make improvements, to make that faster, because field resources obviously need to look at the information quickly.

And we also want to deploy it more to our crews so they can also benefit from the information that we have.

MR. SHEPHERD: Now, this should save you a lot of money in the long term, right?

MR. SINCLAIR: Yes. Yes.

MR. SHEPHERD: But there is nothing in the application because it is a long-term sort of thing?

You spend money now, you invest now, and in the future, rates go down because it is cheaper to do this stuff, right?

MR. SINCLAIR: Yes. We can't get all the savings immediately. It takes time to implement and roll out to our staff.

MR. SHEPHERD: You're not including any of the savings right now because it is just new, right?

MR. SINCLAIR: It is just new, yes.

MR. SHEPHERD: Then you have a list, lower on that page, of what you call change management mechanisms.

I have to tell you. In your IT plan, I have never seen so much jargon in one place in all my life. They really know how to do jargon.

So change management mechanisms, and you have a list of them, which I guess are ones that have been implemented already, right?

So monthly project matrix reviews, for example? Or --

MR. SINCLAIR: Yes.

MR. MILES: Yes, many of these have been implemented.

MR. SHEPHERD: An automated tool for your service desk and things like that. These have all been implemented, right?

MR. MILES: Either implemented or in the process of being implemented.

MR. SHEPHERD: And these things, are there costs associated with these in the OM&A budget today? Or the capital budget, for that matter?

MR. MILES: A lot of these are internal. They're really using best practices from the IT sector in applying them to how we manage in -- our IT resources within the company. So I wouldn't say there is a lot of incremental cost to them.

MR. SHEPHERD: Except that one of the reasons why you had to add new people is to do all of this stuff, right?

MR. MILES: The people, yes.

MR. SHEPHERD: Okay. And there are benefits associated with these, right?

MR. MILES: It reduces the risk of IT failures, and it allows us to get the most out of our IT investments that we already have.

So yes, there are benefits.

MR. SHEPHERD: There is also dollar savings, aren't there?

MR. MILES: In this particular area, it's -- I wouldn't say there is a lot of potential dollar savings.

This is really managing the existing assets and resources that we have better, and reducing the risk -- reducing the risk of failure.

MR. SHEPHERD: If you make better decisions about procurement, for example -- one of the things here -- that saves you money, right?

MR. MILES: It will.

MR. SHEPHERD: And similarly, if you automate some of your service desk activities, that saves you money, right?

MR. MILES: I am not sure that that one, in particular, would show up as saving us money.

I mean, if something breaks on a desktop, we fix it. We fix it faster. So in that sense I guess you could argue, yeah, there is -- there could be some savings.

MR. SHEPHERD: None of these savings are in here, are they?

MR. MILES: No. No.

MR. SHEPHERD: No. We talked about automated management of information, which is on the next page.

What you are starting with in terms of your automation of information is the Ontario One Call information, right? You are downloading an electronic file instead of pushing paper around for locates, right?

MR. MILES: Yes.

MR. SHEPHERD: And that is because Ontario One Call has that capability already, right?

MR. MILES: That's right. And we're taking advantage of it.

MR. SHEPHERD: Okay. And that is saving you money?

MR. MILES: It is creating some capacity in one particular area, that where the person used to handle a lot of these manually, is now going to be redeployed, if you will, to helping us with the flow of information mainly between engineering and operations, to smooth out some of those processes.

So indirectly there is a ripple effect that that extra capacity will help us save money down the road as well.

MR. SHEPHERD: You see the theme, right?

MR. MILES: I do.

MR. SHEPHERD: You have all these productivity-type initiatives, which are all very good, but there doesn't seem to be any productivity. And I don't understand why.

MR. MILES: I think it is very early. We have only started to introduce these new programs in the last -- some of them are still in the process of being implemented.

We don't know, frankly, what the ultimate savings are going to be from each of these programs in detail.

We know that directionally it is the right thing to do, and we believe there will be savings down the road. It is just very hard for us to quantify it at this point.

MR. SHEPHERD: Is it reasonable for the ratepayers to think that when you come in to rebase next time around, these savings will be kicking in and we'll get the benefit of them?

MR. MILES: I would hope so, yes.

MR. SHEPHERD: Okay. I had to get that on the record for next time.

[Laughter]

MR. SHEPHERD: Can you go to page 24, please, of our compendium?

This is -- one of things you talked about in your IT strategy is -- I think -- is coordinating with other LDCs for some things that you might be able to do together, and you list three examples here in this response.

Can you tell me what the status of each of those are? Because these are all things that you did last year, right? So where are you now?

MR. MILES: With respect to disaster recovery, we have reached out and spoken to our immediate neighbours. And by "immediate neighbours" I mean Kitchener, Waterloo and Guelph. We're in the process of developing an RFP to go out to market with.

They have expressed an interest in participating with us, but nothing definitive has been agreed to yet. But the discussions are underway.

MR. SHEPHERD: That should save you money by doing it jointly, right?

MR. MILES: Yes.

MR. SHEPHERD: So the amount you have included in your budget for this, does it assume that you are going to do it jointly or by yourselves?

MR. MILES: It was an estimate based on doing it by ourselves, but I want to emphasize it was an estimate and it could -- we could be -- depending on responses we get back, it could be too low or too high. I don't know.

MR. SHEPHERD: In any case, if you are doing it together it should be lower than --

MR. MILES: We believe so, yes.

MR. SHEPHERD: Okay. Now, you have IVR; you are implementing IVR to reduce the costs associated with your call centre, right?

MR. MILES: Yes.

MR. SHEPHERD: And are you implementing that with any other utilities?

MR. MILES: No. This one, we are still in the early stages of evaluating responses to an RFP that we have just initiated.

This one could be a little bit tougher to share with other utilities, because in some cases they already have an IVR system that they have invested in.

But we will look for opportunities longer-term, I would say, on the IVR solution to try to share in resources and reduce costs.

MR. SHEPHERD: Okay. And then the last one you have listed here is a database analyst?

MR. MILES: Hmm-hmm.

MR. SHEPHERD: Tell me what that is.

MR. MILES: Well, this is a resource that we only need about -- it was described to me by our VP of IT -- about a half a day a month kind of a thing. So it is a very -- we could never justify a full-time position for this, but the thought or the concept here was to share one dedicated person amongst a number of LDCs. It may be cheaper to do it that way then use a third party to help us with this database administrative services.

MR. SHEPHERD: Are you outsourcing this sort of thing now? Or are you using somebody internally that is sort of, it is an add-on to their job?

MR. MILES: We are outsourcing this.

MR. SHEPHERD: Outsourcing.

MR. MILES: Yes.

MR. SHEPHERD: And so you are hoping that your outsourcing costs will go down if you share the --

MR. MILES: That's right.

MR. SHEPHERD: -- resource. That's not going to happen anytime soon?

MR. MILES: I am not aware of it happening this year, for sure. I know the discussions have started, but once again it is a case of, we have not implemented this one yet.

MR. SHEPHERD: Okay. I wonder if you could turn to page 27 of our materials. And you were asked about your operational effectiveness initiatives under issue 6.2. And you gave a number of examples of operational effectiveness initiatives, some of which you've implemented already. So for example, Home Connect, where you allow people to look at their own usage; you've implemented that already, right?

MR. MILES: That's right.

MR. SHEPHERD: And your expectation is that people will shave their peak use because they see when they're actually using electricity; is that right?

MR. MILES: That's right. The better-informed customers are with respect to, you know, how time-of-use billing works and how they can save money. We expect that they will start to change behaviour.

MR. SHEPHERD: And in the long-term that should reduce your system costs, because your system is built based on demand, right, rather than based on volumes?

MR. MILES: You are talking about our distribution system?

MR. SHEPHERD: Yes.

MR. MILES: I will let Ron comment on that. I think if we're talking primarily here about residential customers, I am not sure that they would have a big enough impact on our system. On generators and on the transmission network, maybe. But I don't think the impact on our system is -- I don't know if you have anything to add, Ron?

MR. SINCLAIR: Yes. I wouldn't describe it as a large impact. There is an impact for every customer who shifts their use out of our peak periods, but in terms of our total system peak, we would have to see a lot of residential load shifted outside the peak times, particularly in the summer with air conditioning.

MR. SHEPHERD: All right. The other thing you have done here is Bill Connect, which you've just implemented now, right, just last month.

MR. MILES: That's correct.

MR. SHEPHERD: And this basically allows people to pay their bill online, right?

MR. MILES: That's right.

MR. SHEPHERD: They get a bill by e-mail?

MR. MILES: Electronically, yes.

MR. SHEPHERD: And they go to their bank and they pay it and, bam, it's done.

MR. MILES: Or they can pay it online directly through their bank.

MR. SHEPHERD: Okay. And so you are expecting to get some pretty substantial savings out of this in the long-term, aren't you?

MR. MILES: In the long-term, yes.

MR. SHEPHERD: But you are not expecting to get any savings this year.

MR. MILES: No. The numbers are too small. I believe we had something like about 300 customers sort of pre-signed up to -- that's 300 out of 52,000 customers. It will take time for us to promote it and get the penetration up.

MR. SHEPHERD: You are marketing it to your customers, right?

MR. MILES: We are. We are marketing it --

MR. SHEPHERD: And there is a budget for marketing it to your customers in your application, right?

MR. MILES: Very small budget. Most of it is at our front counter. When customers come in they are made aware of this as an opportunity.

We are trying to reduce the number of customers that come in through our front door to pay in cash or by debit. That is the most expensive way for us to process bill payments.

MR. SHEPHERD: Okay. So there will be savings this year. You just -- it is so small that it is not going to be material, right?

MR. MILES: That's probably true, yes.

MR. SHEPHERD: But again, by 2019 you should be seeing something pretty significant.

MR. MILES: We should be.

MR. SHEPHERD: Okay. I am not going to go through the rest of these, but on all of these other ones you have basically the same sort of thing, right? If you spend money now on a new technology, along the way there is going to be a reduction in cost or an improvement in-service or both.

MR. MILES: That's a common theme, yes.

MR. SHEPHERD: Okay. I want to go to page 30. And this is another IT solution. And what it says here is that you are using virtualization technologies to run 65 virtual servers on six physical servers, thus saving 59 -- the cost -- the million-dollar cost of 59 servers. Do I have that right?

MR. MILES: Yes, that's right.

MR. SHEPHERD: So my marginal note is, "What?" Everybody uses virtual servers. How is this special? How is this something that you are doing that everybody doesn't do?

MR. MILES: I'm not sure that everybody does it, to be honest. I can't comment on what others are doing. I do recognize that this is growing, and more and more companies are certainly adopting this kind of technology. So we're just simply highlighting that we did, and by doing so these are what we believe the savings are --

MR. SHEPHERD: Yes, except that --

MR. MILES: -- as a result.

MR. SHEPHERD: -- no company of your size would have 65 servers today, would they? That would be, like, very bad practice, right?

MR. MILES: I agree, it would be bad practice in today's environment, yes.

MR. SHEPHERD: Okay. So you didn't save a million dollars, did you? It's a straw man.

MR. MILES: Compared to the alternative? It's a saving, yes.

MR. SHEPHERD: Okay. I want to go to page -- there's lots of neat stuff in here, but I think the theme is the same throughout, so I won't go through it. But I do want to go to page 44 of our materials, because this is -- and by the way, this PowerPoint that we see here, this PowerPoint is a report from a consultant you hired to look at how you could be more productive, right?

MR. MILES: That's right.

MR. SHEPHERD: And there's a whole long list of efficiencies you could build in, things like bar-coding and stuff like that. And then there is a section called "quick hits", which says, Here is some things you can do right away; true?

MR. MILES: Correct.

MR. SHEPHERD: And you got this in -- sometime in mid-last year?

MR. MILES: What was the timing? Was it April or May of last year? Yes.

MR. SHEPHERD: Okay. And so you see on page 44 -- you see a list of things that you could do to improve your processes right away. You have done these, right?

MR. MILES: We have done some of them. And I should point out that not all of these relate to OM&A. A lot of these processes that are being referred to in this presentation are between engineering and operations. So a lot of them are capital in nature. But having said that, there are savings opportunities.

MR. SHEPHERD: And as with all the other stuff, although you have implemented some of these, none of these have been recognized as savings in your application, have they?

MR. MILES: Not as savings, but some of them probably could be characterized as cost avoidance, in terms of not having to hire additional resources to get the same amount of work done.

MR. SHEPHERD: All right. One question on these things, and that is, on page 45 it says "review of non-value activities performed by supervision/management". Can you tell us what that is?

MR. MILES: Maybe I will turn that one over to Ron, if you don't mind. I can't recall what was...

MR. SINCLAIR: Yes. Part of the work that the consultant did was a day-in-the-life study of a number of our personnel. And it was trying to look at areas where we could reduce non-productive time or where we had, say, extensive paper processes that perhaps we could automate and avoid, you know, the time spent, so that would free up time for them to do other, more productive work.

MR. SHEPHERD: And that was largely supervisory personnel that they were finding there was sort of wasted time?

MR. SINCLAIR: I wouldn't necessarily refer to it as wasted time, but time where they could, with actions taken, potentially eliminate that if there was a lot of paperwork, for instance, and we could put in a more automated process or shift some of that work to somebody else, we could gain time from, say, an operations supervisor, that they could more effectively use than they're presently using.

MR. SHEPHERD: I read the term "non-value time" as being sort of equivalent to wasted time; is that not true?

MR. SINCLAIR: No. Not "wasted time," just -- I mean, if a person is doing a lot of paperwork, for instance, and they're consuming X amount of their day percentage-wise doing that, if we can more effectively have them do the paperwork through an automated process versus paperwork, or shift some of those processes to others, we can free up that person's time.

MR. SHEPHERD: And did you have any reductions in personnel as a result of being able to make your supervisory and management staff more efficient this way?

MR. MILES: No, but I would say that if you look at our capital program -- which has increased in 2013 and again in 2014 -- there's more activity happening between engineering and operations, with essentially, with a few exceptions, the same number of personnel.

MR. SHEPHERD: I wonder if you could turn to page 53 of our materials. This is the end of this application -- or of this interrogatory response. And we were asking about these operational effectiveness initiatives.

So sort of like, from ratepayers' point of view, what's in it for us?

One of the things you said at the end is: Well, you know, keep in mind we're assigned to group 3 for the purposes of the stretch factors; we're in the middle.

Right? You're not a high-cost utility?

MR. MILES: Correct.

MR. SHEPHERD: You're not a low-cost utility either, are you?

MR. MILES: We're in the middle.

MR. SHEPHERD: So will you accept, subject to check, that your –- that for 2012, your costs were 1.9 percent below the predicted cost using the Board's econometric model?

MR. MILES: What was the percentage?

MR. SHEPHERD: 1.9 percent. You ranked 27th?

MR. MILES: I thought it was 7 percent.

MR. SHEPHERD: Yeah, ranked...

MR. SHEPHERD: For 2012.

MS. HUGHES: For 2012?

MR. MILES: Sorry, we just need to check it. I thought it was 7 percent.

MS. HUGHES: It was 7 percent. We were ranked 28th in the table 17 to the PEG report.

MR. SHEPHERD: I'm looking at it.

MS. HUGHES: As corrected on December 19, 2013 and January 24th, 2014.

MR. SHEPHERD: So you are 7 percent below? Oh, good.

So that means that your costs were about a million -- total costs were about a million dollars below what the econometric model projected, right? Give or take, roughly a million?

MR. MILES: In 2012, yes.

MR. SHEPHERD: Yes. And you are proposing to add about 25 percent to your OM&A from then to now, right?

MS. HUGHES: So just to clarify, I believe the total costs in the PEG report are both operating costs and capital costs.

MR. SHEPHERD: Yes, I understand.

MS. HUGHES: Okay. So you're making a comparison to OM&A. I just wanted to clarify.

MR. SHEPHERD: Sorry, I should have been clearer. Your total costs were a million dollars below the benchmark, right? In 2012?

MR. MILES: According to the report, yes, correct.

MR. SHEPHERD: But you're increasing your OM&A component by $2.5 million or whatever between then and now.

So you are not going to be below the benchmark any more, are you? You are going to be above the benchmark?

MR. MILES: Well, we don't know what the others are going to be doing, so it is all relative. Right?

MR. SHEPHERD: Let's look at that. We only know one of your local peers that has gone in for a cost of service this year; that is Kitchener, right?

MR. MILES: One of our immediate neighbouring, yes.

MR. SHEPHERD: And it is true, isn't it, that Kitchener came in and asked for a substantial increase in their OM&A? And they have a decision now, and their OM&A per customer -- after the decision for 2014 -- will you accept, subject to check, it is $195.87 per customer?

I took it right from the decision.

MS. HUGHES: Okay.

MR. SHEPHERD: 18,379,260 in OM&A, and 93,835 customers?

MR. MILES: Subject to check.

One of the issues we found in doing some of these comparisons is that some LDCs count the number of connections for street lighting as customers. And it really makes a big difference in terms of that OM&A number per customer.

MR. SHEPHERD: This does not count the street lighting connections.

MR. MILES: Okay.

MR. SHEPHERD: See, what is your number? 275? 300? What is your OM&A per customer in this application?

MS. HUGHES: So 268... I believe it is 281 in this application.

MR. SHEPHERD: 281? So they're 195, you are 281 for the same year. You are right beside each other, right?

So do you have an idea of why it is so much more expensive to run your utility than to run theirs?

MR. MILES: They are -- a couple of reasons. One, they're almost double our size. We have 53,000 customers versus the 93,000 customers. That would be a big factor.

We do recognize that Kitchener is very efficient, but we also compare ourselves to more than just Kitchener.

MR. SHEPHERD: Okay. Well, what about Waterloo North, then? That is another one right nearby, right?

MS. HUGHES: So Waterloo North, the only numbers we have available are 2012, and Waterloo North is not on IFRS or had not converted to modified IFRS.

Difficult to make the comparison.

They were, I believe, approximately 219.96 at the end of '12.

MR. SHEPHERD: And you were 266.21? Using the same method of comparison?

MS. HUGHES: We were, but that included our smart meter decision of $1.3 million, so...

MR. SHEPHERD: And their 219 included their smart meter decision, too, didn't it?

MS. HUGHES: I can't comment. I'm not sure.

MR. SHEPHERD: Okay. What about Milton? They're nearby too, right?

MS. HUGHES: I don't have the Milton numbers.

I know that we're aware that Burlington and Oakville have also been before the Board and have reached settlement, and understand -– Oakville's, I believe, is 274.55.

MR. SHEPHERD: So they're also lower than yours?

MS. HUGHES: But still they have also moved; if you compare to their 2010 OM&A, they had a level of 175.79 to a 274.55.

So we recognize, you know, the increase in OM&A, but have substantiated it through --

MR. SHEPHERD: It's true, isn't it, that except for Halton Hills -- the only local distributor that has a higher OM&A per customer than you is Halton Hills, right? All the rest of them, all the other ones that are nearby you, whether it is Guelph or Burlington or Oakville or Horizon, any of them, they're all lower on an OM&A-per-customer basis; isn't that right?

MS. HUGHES: I believe Guelph's was 266.86 in 2012.

MR. SHEPHERD: Oh, sorry, that's right. Theirs is 60 cents per customer higher than yours. I was treating that as equal.

What I am trying to understand is if, in 2012, you weren't all that inexpensive on an OM&A basis, why do you need so much more OM&A?

And I understand how you built it from the bottom up. I get that. What I don't understand is what have you done from the top down to say: This is a sensible number?

MR. MILES: We have done this benchmarking.

And we recognize that Kitchener is a low comparison point, but with respect to others, like Guelph, Waterloo -- Waterloo adjusted on an IFRS basis -- Burlington and Oakville, we believe that we're very comparable.

MR. SHEPHERD: Well, in 2012 the average of the nine in your area, including you, was $236; is that fair? And you were 266.

And you're asking for a 25 percent increase in your OM&A.

MR. MILES: Well, we are more focussed on looking at the 2014 results, as opposed to back in 2012.

MR. SHEPHERD: Which is fine.

MR. MILES: Where we're all landing in 2014.

MR. SHEPHERD: Okay. So in 2014, is anybody more expensive on a per-customer basis than you, of your peers?

Tell us who it is.

MR. MILES: There's only been a few that's before the -- do you want to read the numbers?

MS. HUGHES: So I don't know if there is anybody higher. I can't -- I mean, I can only give you the numbers, which I gave for Oakville, and Burlington's. And I haven't done the recalculation of Burlington's; only that in their application they were looking for 287.35.

MR. SHEPHERD: But they didn't get it, did they?

MS. HUGHES: They did not get it, but I also know that the OM&A number that they've computed in the settlement document has them using a higher customer base than what we would have calculated, using the actual customers as opposed to connections.

MR. SHEPHERD: All right. Let me approach this a different way.

The big reason why your OM&A is going up so much is because you had 84 staff in 2010 and now you propose in the test year to have 117, right?

MS. HUGHES: It's a very large driver of our increase in OM&A, and which we have highlighted, yes.

MR. SHEPHERD: Okay. At any point have you looked at what's the reasonable number of personnel for a utility your size? Do you have a comparison around somewhere?

MS. HUGHES: So in the budget package that we presented to the Board we actually did provide an FTE comparison.

MR. SHEPHERD: You did.

MS. HUGHES: And I am just looking for the page reference. It was in response to -- oh, it was actually the budget package in SEC's -- but I don't think it is in the compendium document, so let me just...

MR. SHEPHERD: Yes. We couldn't copy all of it.

MS. HUGHES: There is no -- oh, it is 1 -- it was actually -- it's 174 is the page number, I believe.

MR. SHEPHERD: Page 174?

MR. MILES: Of the interrogatories.

MS. HUGHES: Of the interrogatories.

MR. SHEPHERD: All right. And it shows the number of employees for each of four utilities: Guelph, Cambridge, Kitchener, and Waterloo. Right?

MS. HUGHES: Correct. And this would have been based on information principally at the time from the 2012 year book.

MR. SHEPHERD: Hmm-hmm.

MS. HUGHES: So -- because we didn't have any current information.

MR. SHEPHERD: Okay.

MS. HUGHES: Anything beyond 2012.

MR. SHEPHERD: Okay. So what does this tell us?

MS. HUGHES: So this tells us that in 2012 it was 94, going up to 113, compared to Guelph's had 110, Kitchener 174, and Waterloo 119.

MR. SHEPHERD: And what are we supposed to conclude from this?

MS. HUGHES: So, I mean, there's no specific conclusion on, you know, on this basis, other than how we compare, in terms of number of employees. But then on page 175 we also looked at customers per FTE. So we looked at that as being another measure, in terms of where our results compared on a customer per FTE basis.

MR. SHEPHERD: Okay. And how does that help us? By the way, that is 2011 you're doing, right?

MS. HUGHES: So the first graph is 2011. And then what we tried to do was show how our 2014 budget compared to 2012. And we were in the, I would say, in the middle, in terms of customers per FTE. So as compared to Guelph had 469 customers per FTE, we were proposing 460, compared to Waterloo at 449.

MR. SHEPHERD: And so --

MS. HUGHES: Compared to Kitchener at 512.

MR. SHEPHERD: -- when it gets to this comparison it no longer matters what the size of the utility is. There are no economies of scale, right? Because before when we were talking about Kitchener, and they're so much cheaper than you, said, oh, no, no, but they're twice our size. So size doesn't matter here?

MS. HUGHES: I didn't say that.

MR. MILES: No, we're not saying that. We're just trying to put these in the perspective of, on a per customer basis, recognizing that some of these larger utilities would have more efficiencies than we would have available to us.

MR. SHEPHERD: All right. The real problem you have is your G&A, right? The real increase that we saw here is not in your tool and hand personnel, it is in your general administrative personnel, right?

So if you take a look at page 8 of the staff compendium, this shows that your Board-approved G&A was a million-three in 2010, and you are proposing 4.8 in 2014.

Now, part of that is a reallocation of just over a million dollars, right?

MS. HUGHES: Yes. So we undertook a ERP implementation, which resulted in us reclassifying our management salaries into G&A where they would have previously been in operations and maintenance.

MR. SHEPHERD: Okay. So on a apples-to-apples basis we would have to take that million dollars and we would have to treat it as if it had been reallocated in 2010, right? In order to see what the real increase is in those expenses, we --

MS. HUGHES: Yes, and --

MR. SHEPHERD: -- would have to back that out, right?

And so will you accept subject to check that you have approximately doubled -- in four years you approximately doubled your G&A? I have from 2.4 million to 4.78 million.

MS. HUGHES: It would be -- yes, subject to check.

Yes. In terms of the G&A, part of this also includes the fact that we have got costs that we are now expensing as a result of moving to modified IFRS.

So by way of --

MR. SHEPHERD: That's a million-three?

MS. HUGHES: No, that is actually approximately 500,000, whereby costs that we used to capitalize are now in OM&A.

So our building costs is one example. Our health and safety department is another example. So these costs are now in G&A, when they would have previously been in capital.

MR. SHEPHERD: So on a fair comparison basis then the increase is more like a 70 or 75 percent increase rather than a doubling? Am I in the ballpark? 2.4 up to 4.2?

MS. HUGHES: Approximately. I mean, it is directionally, I would agree with you, directionally.

MR. SHEPHERD: And the reason for that is because you are investing heavily in IT, which is -- IT is pretty well all in G&A, right?

MR. MILES: Yes, it is.

MR. SHEPHERD: And you are adding more resources in that area, so your new control-room people are not there, right?

MR. MILES: No, they're part of --

MS. HUGHES: They're part of operations.

MR. MILES: -- part of operations.

MR. SHEPHERD: They're proper -- part of --

MR. MILES: They're part of OM&A, yes.

MR. SHEPHERD: But your new HR person and your new accountant and that group, plus a bunch of people in IT, are in G&A.

MS. HUGHES: That's correct.

MR. MILES: Correct.

MR. SHEPHERD: And that's an investment in the future that's going to pay off.

MR. MILES: Correct.

MR. SHEPHERD: Okay. And what is happening is on rebasing the ratepayers are going to pick up the tab for that and you are going to get the benefit until the next rebasing, right?

MR. MILES: The benefit of covering those costs --

MR. SHEPHERD: The benefit of that investment, you're going to get it -- we're paying for it, but you are going to get the benefit until the next rebasing.

MS. HUGHES: So I would just also highlight, though, that there is an expectation in the IRM period on productivity. So that the rates beyond 2014 will be set with an expectation of productivity -- not necessarily productivity, but a stretch factor moving forward.

MR. SHEPHERD: Sure.

Okay. Those are all my questions. Thank you.

MS. LONG: Mr. Vellone, did you have any redirect?

MR. VELLONE: I do have two questions, if the panel doesn't have any questions for the witnesses.

MS. LONG: I just had one question, and it actually is to the intervenors.

There was one issue with respect to the GS over 50 class which I didn't hear any cross-examination on. So I am assuming that that is going to be dealt with in argument?

MR. SHEPHERD: Yes. That's an issue for Schools, and we will deal with it in argument, yes.

MS. LONG: Okay. Thank you.

So we had no questions for the panel.

MR. VELLONE: Thank you. I shouldn't be very long, then.

## Re-Examination by Mr. Vellone:

MR. VELLONE: Panel members, you will remember back to this morning when my friend Mr. Aiken asked you a hypothetical question, and the question was whether or not you would be open to having a variance account for recording removal costs in the test year, and Mr. Miles, I believe your answer to that question was, yes, you are open to the concept.

And I just want to clarify just for the benefit of the panel, it's my understanding that you are not proposing a variance account in your application for removal costs; is that correct?

MR. MILES: That's correct. We were not proposing that.

MR. VELLONE: Okay. And do you propose a variance account in your application, I guess, each time forecasts vary from budgeted amounts?

MR. MILES: No, we do not.

MR. VELLONE: Thank you. And I guess, just to be fair, let's turn up page 5 of the Energy Probe compendium, which is what Mr. Aiken was referring to at the time.

My understanding of his question really related to -- I will just wait for everyone to get there. It is available on the monitor if you would like to just follow along.

My understanding of the question is that it related to a line of questioning around the column in this table related to 2014 removal costs, and the questions were about how some of those costs could be -- move around from year to year because of changes to the capital project mix that occurs in that year.

My final question -- my question for you is this: Do you propose a similar variance account for the actual capital costs for each of these projects, to capture differences between forecasts and actuals, as opposed to just the removal cost amounts?

MS. HUGHES: No, we do not.

MR. VELLONE: That's all of my questions on that point.

Looking at my last redirect, it probably doesn't need to be done, so that is the end of my questions.

MS. LONG: That is the end of your questioning? Thank you.

So the panel is excused, with the Board's thanks.

# Procedural Matters:

Just looking at the time now, and, Mr. Vellone, what we propose to do is start tomorrow with your argument in-chief.

I don't know if the intervenors will -- are planning to come to that. I expect maybe not. So what I propose to do is set the schedule.

Mr. Vellone, you will do your argument-in-chief tomorrow, and then I would say a week from that we will expect a reply argument, if that is acceptable to the parties. That should give you enough time, a week?

MR. SHEPHERD: A week?

MS. LONG: Would you like longer than that?

MR. SHEPHERD: Normally it would be two weeks, and particularly if CAMPUT is in the middle.

MS. LONG: CAMPUT; I forgot about that.

So that would take us, I guess, to the next Monday of CAMPUT. You're back on the 5th? That would be the...

MR. SHEPHERD: Others may.

MS. HELT: Monday the 12th.

MS. LONG: Monday the 12th. All right. We will get reply Monday the 12th -- intervenor argument. Well, that's what I meant, sorry, intervenor argument on the 12th.

And then, Mr. Vellone, for reply, we'll give you a week?

MR. VELLONE: I guess typically we do about the same amount of time that the intervenors take. I acknowledge we don't have CAMPUT in the middle of ours.

[Laughter]

MS. LONG: Did you feel you need two weeks? I mean, we are trying to do this as expeditiously as possible but I want to be fair to you. So if you feel you need the two weeks...

MR. VELLONE: To be honest with you, just given this is the first RRFE application going before the Panel in an oral hearing, we might need some extra time because we really don't know how the arguments are going to come.

MS. LONG: We will give you the two weeks and encourage you to get it in sooner if you can, but appreciating that we will give you an equal amount of time.

That being said, the schedule is set.

We will see you tomorrow, Mr. Vellone, to do your argument at 9:30 a.m.

MS. HELT: Madam Chair, perhaps also it might be helpful to have a date set for answers to the interrogatories, an expectation that they be answered within -- I don't know, Mr. Vellone. How long do you think you would need?

MR. VELLONE: I would have to confer with my panel, which I have not done because they have been sworn until about a minute ago.

Can we file a letter to say exactly what we're expecting? I am hoping as many as quickly as possible, to be honest with you.

MS. LONG: Well, why don't you advise us tomorrow morning? Keeping in mind that obviously the intervenors need those answers to be able to prepare their submissions to us.

MR. SHEPHERD: Madam Chair, is Board Staff going to file a couple of days earlier, as is often the case?

MS. LONG: I turn to you, Board Staff.

MS. HELT: Board Staff could file a few days earlier. So we have -- I am just looking at the calendar, but my screen has gone blank on my BlackBerry.

There is Monday, May the 12th you have indicated as the date for intervenor argument, and Monday the 26th for reply.

Friday -- or Thursday, May the 8th for Board Staff argument.

MS. LONG: That's fine. So Thursday, May the 8th for Board Staff argument, so that will be in advance of the intervenors.

All right. There being no further issues, we are adjourned until tomorrow morning.

### --- Whereupon the hearing adjourned at 4:03 p.m.