Ontario

ONTARIO ENERGY BOARD

FILE NO.: **EB-2017-0049** **Hydro One Networks Inc.**

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DATE: **March 1, 2018**

EB-2017-0049

THE ONTARIO ENERGY BOARD

Hydro One Networks Inc.

Application for electricity distribution rates beginning January 1, 2018 until December 31, 2022

Hearing held at 2300 Yonge Street,
25th Floor, Toronto, Ontario,
on Thursday, March 1, 2018,
commencing at 9:34 a.m.

TECHNICAL CONFERENCE

A P P E A R A N C E S

JAMES SIDLOFSKY	Board Counsel
HAROLD THIESSEN KEITH RITCHIE CHRISTOPHER OAKLEY	Board Staff
GORDON NETTLETON S. LISA LEE	Hydro One Networks Inc. (HONI)
MARK LOWRY* DAVID HOVDE*	Pacific Economics Group (PEG)
LISA (ELISABETH) DeMARCO CARY FERGUSON	Anwaatin Inc. and Energy Storage Canada (ESC)
SHELLEY GRICE	Association of Major Power Consumers of Ontario (AMPCO)
MICHAEL BUONAGURO NICHOLAS COPES*	Balsam Lake Coalition (BLC) and Arbourbrook Estates
TOM BRETT	Building Owners and Managers Association, Toronto (BOMA)
RANDY AIKEN*	Canadian Manufacturers & Exporters (CME)
JULIE GIRVAN	Consumers' Council of Canada (CCC)
TOM LADANYI BRADY YAUCH	Energy Probe Research Foundation
MARION FRASER	Ontario Sustainable Energy Association (OSEA)
RICHARD STEPHENSON BAYU KIDANE	Power Workers' Union (PWU)

*appearing by teleconference

A P P E A R A N C E S

MICHAEL McLEOD*	Quinte Manufacturers Association
JAY SHEPHERD MARK RUBENSTEIN	School Energy Coalition (SEC)
VICKI POWER BOHDAN DUMKA	Society of Energy Professionals (SEP)
MARK GARNER BILL HARPER	Vulnerable Energy Consumers' Coalition (VECC)

ALSO PRESENT:

ERIN McKINNON JODY McEACHRAN	Hydro One Networks Inc.

*appearing by teleconference

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

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

E X H I B I T S

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

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

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

Thursday, March 1, 2018

--- On commencing at 9:34 a.m.

MR. SIDLOFSKY: Good morning, everyone. Just a few preliminary comments as we get started this morning. My name is James Sidlofsky. I'm counsel with the Ontario Energy Board, and we're here today for the technical conference on Hydro One Networks Inc.'s application for electricity distribution service -- excuse me, electricity distribution rates for the period of January 1st, 2018 through December 31st, 2022.

This technical conference was ordered by the Board through Procedural Order No. 3, dated January 10th, 2018 and scheduled for today and if necessary tomorrow. A rough schedule of the time people have suggested for their questioning actually takes us through tomorrow. We are trying to arrange for the room for Monday as well, because I do expect we will be into Day 3.

But in any event, as many, if not all, of you will know, technical conferences do not take place in front of a panel of Board members who are hearing the case, but it's transcribed, and the transcript forms part of the record in this proceeding.

This proceeding is also being broadcast, and will be on the air throughout the conference with the exception of breaks and those times if any where material that's the subject of Hydro One's February 12th confidentiality request is being discussed.

In yesterday's letter from the Board the Board stated that for the time being the PSE working papers delivered by Hydro One in response to Staff Interrogatory No. 23A will be maintained in confidence. The OEB will be issuing a procedural order in respect of that request and intervenor representatives seeking access to that material will be required to execute the OEB's form of confidentiality undertaking in accordance with the Board's practice direction on confidential filings. But the OEB will not require those individuals to execute a further PSE undertaking in order to obtain access to that material. OEB Staff has copies of this undertaking. We don't have very many filed at this point, but Board Staff have copies of the undertaking here today for parties to sign if they desire to remain and if we are required to go in camera.

I'd ask any intervenor representatives that intend to ask questions about the material in respect of which Hydro One has requested confidential treatment to group those questions in order to minimize the time that we have to close the proceeding.

If we do have to go in camera today attendance would be restricted to those who have signed the confidentiality undertaking.

For the time being a redacted version of the transcript will be placed on the public record, but the OEB's disposition of Hydro One's confidentiality request at a later date may affect the form of the transcript that will ultimately be placed on the record.

Another reminder from yesterday's letter, we'll not be dealing with matters related to pole attachments or prepaid meters in this technical conference.

The other procedural matter I would like to remind parties of is that this is a technical conference. It is not intended to be cross-examination on the evidence, but rather clarification of the evidence that is both in the application and the interrogatory responses provided by Hydro One.

As the OEB stated in Procedural Order No. 3, this technical conference will be held to clarify any matters arising from the interrogatories only.

You will also see from Mr. Thiessen's e-mail message to the parties, as I mentioned, that at this point we're estimated to have roughly two-and-a-half days, likely closer to three days, of questioning for a technical conference that's currently scheduled for days two days. I would ask you to make your best efforts to keep to those estimated times and consider whether it'll be possible to shorten those times where other parties may have covered areas in which you had similar questions.

We're looking into making time available on Monday if we can't finish by the end of the day tomorrow.

Finally, before we go into appearances, just a reminder about one technical matter, particularly for the witnesses. I'm sure many of you have been here before, but for those who haven't or have forgotten, there is a button and a green light beside each of your microphones. That button controls the microphone, and the green light goes on when the mic is on. Please ensure that that green light is on before you ask or answer a question, and that will indicate that your mic is on and that the court reporter can hear you.

The microphones work in tandem. So if you turn your microphone on it will also put on the microphone for the person next to you. If you turn it off, that's also going to turn off the person next to you. You'll figure that out easily enough.

I think it's prudent to outline at this point that we hope to have a break this morning at about 11:00 and a one-hour lunch break at roughly 12:30. We will also have a break in the afternoon around three o'clock or so, and we hope to continue until 4:30 today.

Parties have provided to OEB Staff estimates of the time they think they will need, and Staff has completed a schedule, and I believe Harold has additional copies of that schedule if you don't have one.

And on that note I think we can start with appearances. First of all, with me I have a couple Board Staff members this morning. Harold Thiessen to my right, who is the case manager, and Keith Ritchie behind me, project manager -- or, excuse me, project advisor in application policy. I also have Christopher Oakley behind me to my right. Mr. Oakley is with Midgard Consulting, and he'll be asking questions related to the Hydro One distribution system plan. In addition, OEB Staff have retained outside consultants from the Pacific Economics

Group, or PEG. Dr. Mark Lowry and Mr. David Hovde will be calling in or may be on the line right now.

DR. LOWRY: Yeah, I'm on. I don't know about Dave.

MR. SIDLOFSKY: Is that Mark?

DR. LOWRY: Yes, it's Mark Lowry calling.

MR. SIDLOFSKY: Okay. And they will be providing questions with respect to Hydro One's custom IR this morning.

In that regard, as far as scheduling for this morning, I think it's probably most efficient that Board Staff questioners will go first for panel 1, and also tomorrow for panel 2, possibly this afternoon if we get to it, Mr. Oakley, unless there are any strong objections to going on that basis.

When those are complete we'll determine the order of questioning for the parties for each panel. And I think that brings me to other appearances.

APPEARANCES:

MR. GARNER: Mark Garner for VECC.

MR. HARPER: Bill Harper for VECC.

MR. RUBENSTEIN: Mark Rubenstein for the School Energy Coalition.

MR. SHEPHERD: Jay Shepherd, School Energy Coalition.

MS. FRASER: Marion Fraser, Ontario Sustainable Energy Association.

MR. BRETT: Good morning. Tom Brett for the Building Owners and Managers Association.

MS. McKINNON: Erin McKinnon for Hydro One.

MR. McEACHRAN: Jody McEachran, Hydro One.
MR. NETTLETON: Good morning. Gordon Nettleton, counsel to Hydro One.
MS. LEE: Lisa Lee, Hydro One.
MS. DeMARCO: Lisa DeMarco, Cary Ferguson alternatively, for Anwaatin and Energy Storage Canada.
MR. STEPHENSON: Richard Stephenson for the Power Workers' Union.
MR. BUONAGURO: Michael Buonaguro for the Balsam Lake Coalition and Arbourbrook Estates.
MS. POWER: Vicki Power for the Society.
MR. DUMKA: Bohdan Dumka for the Society.
MR. YAUCH: Brady Yauch with Energy Probe.
MR. LADANYI: Tom Ladanyi for Energy Probe.
MS. GIRVAN: Julie Girvan, consultant to the Consumers' Council of Canada.
MS. GRICE: Shelley Grice, consultant for the Association of Major Power Consumers in Ontario.
MR. SIDLOFSKY: I believe we have Mike McLeod on the line for the Quinte Manufacturers --
MR. McLEOD: Correct.
MR. SIDLOFSKY: -- Nicholas Copes for Balsam Lake Coalition. Is that correct, Mr. Copes?
MR. COPES: Correct.
MR. SIDLOFSKY: Randy Aiken for Canadian Manufacturers & Exporters?
MR. AIKEN: Correct.
MR. SIDLOFSKY: And Mark Lowry for PEG. Is there

anyone else on the --

MR. HOVDE: (Inaudible)

MR. SIDLOFSKY: I'm sorry?

MR. HOVDE: Yes, I am. Making sure Dave's on the line.

MR. SIDLOFSKY: Okay. That's Dave Hovde? And is there anyone else on the line?

Okay. And I understand there are no preliminary matters this morning? So --

MR. NETTLETON: Actually I do have one preliminary matter --

MR. SIDLOFSKY: Okay.

PRELIMINARY MATTERS:

MR. NETTLETON: -- I apologize.

On Wednesday, February 21st, Mr. Warren, counsel to the City of Hamilton, wrote to me and to the Board regarding his intended participation at this technical conference and thought the best approach for his client, the City of Hamilton, was to provide written questions that were attached to his e-mail.

Hydro One thinks that the best way to address this would be to have this marked as an exhibit and treat it as an undertaking -- that is to say, the list of written questions, and we will then undertake to provide a response to those.

So if we want to mark Mr. Warren's email and questions as an exhibit and then we will, in due course, respond to those questions in writing and file those accordingly.

MR. SIDLOFSKY: Why don't we do this? We'll mark Mr. Warren's questions as Exhibit KT1.1. And are you giving an undertaking to provide responses?

MR. NETTLETON: Yes.

MR. SIDLOFSKY: I'll mark that as undertakingJT1.1.

EXHIBIT NO. KT1.1: LETTER FROM ROBERT WARREN RE CITY OF HAMILTON HEARING PARTICIPATION

UNDERTAKING NO. JT1.1: TO PROVIDE A RESPONSE TO MR. WARREN'S TECHNICAL CONFERENCE QUESTIONS FILED VIA EMAIL

MR. SIDLOFSKY: Is that all, Mr. Nettleton?

MR. NETTLETON: Yes, thank you.

MR. SIDLOFSKY: Perhaps I can have you introduce your witnesses this morning.

HYDRO ONE NETWORKS INC. - PANEL 1

Steve Fenrick

Samir Chhelavda

Frank D'Andrea

Joel Jodoin

Keith McDonnell

MR. NETTLETON: Happy to do so. Good morning, everybody. The panel seated at the witness table is comprised of five gentlemen. The person seated closest to me is Mr. Steve Fenrick. Mr. Fenrick is the leader of economics and research with power system engineering.

Seated beside Mr. Fenrick is Mr. Samir Chhelavda. Mr. Chhelavda is director of corporate accounting and reporting at Hydro One. Beside Mr. Chhelavda is Mr. Frank D'Andrea.

Mr. D'Andrea is the vice-President of regulatory affairs and chief risk officer for Hydro One, and he is the chair of this panel. Beside Mr. D'Andrea is Mr. Joel Jodoin. Mr. Jodoin is senior financial advisor for business planning at Hydro One. And finally, Mr. Keith McDonnell is seated beside Mr. Jodoin, and Mr. McDonnell is the Director of human resources operations at Hydro One.

MR. SIDLOFSKY: Thank you. We're going to begin questions by Dr. Lowry and Mr. Hovde regarding custom application.

DR. LOWRY: David, You're going to take the lead on these early questions, am I not right?

EXAMINATION BY MR. HOVDE AND DR. LOWRY:

MR. HOVDE: That's fine, I will do that. These are all going to be directed to Steve Fenrick.

Steve, how are you doing?

MR. FENRICK: Hi, Dave.

MR. HOVDE: First, thank you for providing the working papers. I had a chance to get through some of it over the last couple days. Also, I'll note that the working papers -- some parts are going to be confidential, and it's not my intention to touch on anything that's kind of a sensitive nature. It's all going to be kind of general --

MR. SIDLOFSKY: Sorry, could I just interrupt you for a minute? Is there a chance you could get a bit closer to your phone? You're just not that clear on this end for our reporter.

[Technical interruption]

MR. NETTLETON: Can we get the spelling of your name, please?

MR. HOVDE: H-o-v-d-e.

MR. NETTLETON: Just for your benefit, there is a court reporter here that's transcribing what you're saying. And so we're having difficulty with the clarity of your speech. So it may be helpful if you just slow your speech pattern down for the benefit of the court reporter.

MR. HOVDE: Thank you for that reminder. In my review of the working papers, a number of questions came up, and as I was saying before, it's not my intention to touch on anything that's of a confidential nature. And if for some reason it gets into an area where you think I'm getting into something that's too confidential, just let me know and I'll rephrase the question.

In my review of the working papers, it appears that you sourced data from the benchmarking updates. In your report, you mention using yearbook data a number of times. I was wondering if you can just clarify the source of the data to update the TFP work. Namely, when was the data from the benchmarking updates used? And where were the yearbook data used?

MR. FENRICK: Hi, Dave. As far as the output data -- let me just start. Are you referencing the Hydro One TFP study or the Ontario study?

MR. HOVDE: The industry study is the focus.

MR. FENRICK: The industry study; okay. There it was -- we used the PEG benchmarking update files. PEG updates on an annual basis, the 4 GIR benchmarking results, and we used those files as the basis for the costs and outputs to update the Ontario data set.

MR. HOVDE: Thank you. We also noticed your comment about the -- what you termed the implausibly high, the high voltage plant additions data as reported to the -- on the RRR to the OEB. I'm curious about -- are the corrections to these data available in working papers? If not, could you provide them, and are these changes approved by HON, or is this something that you kind of got on your own?

MR. FENRICK: The correction for the high voltage expenses are not in our working papers, the PSE working papers, because we added high voltage in the benchmarking update. However, they are in -- there is an exhibit for updating PEG's forecasted data and those have been updated. I don't know the exhibit offhand that those high voltage corrections were made.

MR. HOVDE: The next question has to do with the methodology that was used in the previous industry TFP study having to do with smart meter costs. In general, my understanding of the way that that was done was that the intent was to remove all smart meter costs from the analysis.

And the way that that was implemented was that we put out a special data request, and we ended up getting balances from the deferral accounts for that particular item. And then we tried to figure out what the O&M expenses were associated with the smart meter accounts, and then stripped those out of the analysis.

The questions for you are -- did that, in general terms, kind of square with the understanding of the way the old study was done? And then can you confirm that in the updated version of the industry study that you did, that any smart meter O&M expenses in, let's say, 2015 are present in the data?

MR. FENRICK: The answer to your first question is yes, that does square with PSE's understanding of the fourth generation IR procedure. As far as when PSE updated to 2015, the Ontario energy -- or Ontario industry TFP, we used as previously stated the PEG benchmarking updates as a data source. I understand you had a smart meter expense category, but it was set to zero. And as you mentioned with the data request, that hasn't been updated.

But I would say by 2012, 99 percent of the Ontario industry has already had smart meters installed. So on an ongoing basis, it would make sense to begin to have metering expenses in the TFP calculation.

If you go back to 2002, which is the beginning year of that study, there certainly are metering expenses embedded within the TFP. So to have a consistent series, while it probably does make some sense to exclude the initial implementation back in 2008-9, 2010, on an ongoing basis, adding in those smart meter expenses is a prudent step.

MR. HOVDE: I just have one follow-up to that. When you say zero out the smart meters, my understanding is that there was a smart meter adjustment factor that was in place. But then there is just the underlying O&M expenses inherent in, you know, in the metering account as part of the kind of the normal triple R trial balance account. So, I mean, we did not zero out, as I understand it, that item, so my question for you is, you know, if you look at the, you know, the, whatever the metering, you know, inside the trial balance data, my understanding is that that doesn't hold any, you know, ongoing meter expenses, which of course now are, you know, smart meters for everyone. And so I'm just wondering if you understand that that particular account which is inherent in the O&M data does include smart meter expenses?

MR. FENRICK: When you say "that account", what did you mean by that?

MR. HOVDE: I mean that if you -- if you just pull down, you know, not considering any adjustments or anything, if you just pulled up a meter -- the meter accounts for -- inside the --

MR. NETTLETON: Excuse me, can I just interrupt? We're again having audio problems. There was a change in quality of speech. So I'm wondering if you could either increase the volume or get closer to the phone or try and improve it.

MR. HOVDE: Okay. I'll try. The account I'm referring to is that if you go, you know, if you look in the Accounting Procedures Handbook you will find, you know, the different account descriptions. One of those account descriptions will be for metering expenses, which these days ought to include -- whatever, you know, meter expenses will be smart meter expenses at this point. And therefore, you know, any ongoing O&M expenses which will be smart meter expenses will be included in that count. And my understanding is that those are the data that you are using and that those data will then inherently include smart meter O&M expenses. I'm just wondering if that's your understanding also?

MR. FENRICK: Yes, that's my understanding.

MR. HOVDE: Okay. All right. Next question has to do with the amalgamation of Haldimand and Woodstock, and I understand that your study only went through 2015, which predates this amalgamation.

But would it be fair to say that the benchmarking study you did, because it did not include those two companies, does not fully represent the performance of Hydro One as it's currently constituted?

MR. FENRICK: That's correct, that we -- in the course of the research we only added Norfolk Power Distribution to the Hydro One definition. So, yeah, it does not include Haldimand and Woodstock, which is true that it doesn't provide the full Hydro One as it's currently constituted.

MR. HOVDE: The econometric work that you did used, I think it was the EVU software, and the file that was provided in the working papers was kind of in that proprietary format, and just wondering if you could undertake just to get us a text version of that code file for our review, and I'm assuming that's not confidential.

I mean, do you consider the code itself confidential or just the data that you've released or have agreements with other vendors?

MR. FENRICK: SO the EVU software package is a subscription type service. So I'm not sure if we can provide the underlying code. There actually is not -- you might be thinking that we wrote code for that software, but it's really on a GUI type interface.

MR. HOVDE: Okay.

MR. FENRICK: And so I'm not sure if there actually is any underlying code. There might well be, but I couldn't tell for you sure if there is.

MR. HOVDE: Okay. Then I must have misunderstood what I was looking at.

So the WF1 file that you provided, you know, we're unable to open that, but is that like the results of the work or can you tell me what that file represents?

MR. FENRICK: Yes, that's the software package where we did the econometric analysis within. So if you're able to open that -- EVU's file, it would be the econometric model in the equation put into there.

MR. HOVDE: Okay.

MR. FENRICK: And the output of that would be the econometric model and the results.

MR. HOVDE: Okay. I believe it is in your testimony that you described a procedure in which a distribution net plant in the benchmark year was inferred from total net plant. And what I was curious about was, was this procedure required due to data limitations from the RUS7; in other words, the REC data? Because there is a shortcoming in that data where that didn't exist in the Form 1, or any -- and did you do that procedure for everyone or just for the REC data, where you didn't have all the information you might have liked, and was this done for -- if it was done that way, was it done for consistency's sake, or could you just please elaborate on that topic?

MR. FENRICK: Yes, so as you alluded to, the RUS Form 7, which is the rural electric cooperative form that allowed us to be able to incorporate utilities that have far less dense service territories than the investor-owned utilities, so it allowed us to better capture Hydro One's distribution service territory.

That only has the total plant. Now, most of those utilities, I believe 99 percent of them, are distribution-only utilities, but that -- as you alluded to, the reason for that, the procedure, was because of the total plant and service being reported rather than a distribution number, so it did not allow to us do what we might typically do in an investor-owned utility data set, where we would look at the distribution, the total plant in-service, and net plant to make that benchmark and capital cost estimates. It didn't allow us to do that. So then we took the total net plant and used that as the basis for the benchmark for the cooperatives.

MR. HOVDE: And then for the U.S. utilities did you do the same thing or did you use the, kind of the better detail for that work?

MR. FENRICK: By U.S. you mean the investor-owned utilities?

MR. HOVDE: Correct, yeah. You know, as you know, the Form 1 data does have the accumulated appreciation, which would allow you to get at net plant directly without having to use that procedure, and I'm just wondering whether or not you had used that -- whether or not you kind of used the allocation procedure where you actually had better data just for the sake of consistency or if you did something different where you had the superior information as well.

MR. FENRICK: For the investor-owned utilities we did the same procedure as with the rural electric cooperatives for -- as you mentioned, for consistency's sake.

MR. HOVDE: Okay.

DR. LOWRY: Steve, this is Mark, having a question for you. So what other plan do those companies have? Like you say, I mean, they're not usually in the transmission business; isn't that right?

MR. FENRICK: That's correct. I believe there are maybe a handful of utilities that are GT&D, but the vast majority, I would say 99 percent of them, are distribution only.

MR. HOVDE: Okay. The next question I have has to do with the GIS work. Now, as I understand it, you have this -- that you purchased kind of a GIS map that had the -- they kind of map the utility's territories, so kind of --

the physical layout using GIS coordinates. And then there was -- and I wasn't clear about the other part of it where you're getting the data from some other source that has coordinates and might have, I don't know, four station or something.

And my general question is just that -- is that -- could you just briefly go over kind of in general how this was done, what kind of software would be involved, and if I was going to try to examine this or -- how would I go about it and what kind of software would I need to do that?

MR. FENRICK: Yes, I can make an attempt at describing. However, for a fuller explanation as far the software required, I would have to discuss it with our GIS experts. Power system engineering has a GIS practice area, where we have experts in that area. They obviously did the GIS-type research on the variables.

But at a high level, what happened was -- as you mentioned, we subscribe to Platt's dataset that has the service territories of all the utilities in the U.S. and North America. We basically use that mapping to overlay those service territories onto a map and then, for instance for the four-station variable, we add another layer from GlobCover 2009 product from the European Space Agency that has basically satellite type analysis of the service areas in all of the -- in North America and, I believe, across the entire globe.

So using that GIS layer map laid on top of the utility service territories, we were able to calculate variables such as the percentage of forestation, and also the artificial surfaces, so you know, concrete and those types of things where -- you know, what percentage of the utility service territory is covered by those specific types of service types or area types.

MR. HOVDE: Thank you. Is it fair to say that the GIS software that's used is actually in-house software you have, and it's nothing that I can go to -- I don't know, GIS.com and download it or anything? It's something proprietary you have?

MR. FENRICK: I don't know. I can't answer that, Dave, if it is proprietary or not, or if its an off-the-shelf type of software.

MR. HOVDE: That's good enough, that's fine.

DR. LOWRY: I have a question about the mapping thing, because I've seen different kind of maps for service territories, where one is just sort of a broad area in which they operate, and then the other kind of looks like almost like the branches of a tree or something where it really sticks to where they actually have distribution service. Do you know if the Platt's maps more in the flavour of a broad area, or the more detailed and typically smaller area?

MR. FENRICK: I believe it's more the broad area where it's the full service territory of the utilities and where they're required to serve, rather than where their actual distribution lines are.

MR. HOVDE: Next question has to do with the company study and the input prices used for the future years.

As I understand your report and your responses, you pulled kind of these default values out of the forecast model, and my understanding is that those are kind of pretty simplistic. In fact, I think it's just the year-over-year growth for the previous year that was used a default value for which companies could improve upon, if they wanted to.

I'm wondering if -- did you explore other alternatives for that better forecast and whether or not -- is this consistent with what the company's expectations are for labour price and materials price growth?

MR. FENRICK: You're correct. We did use the PEG basically default values for the average weekly earnings, the GDP IPI projections as well as the asset price inflation projections. To the extent those are -- could be firmed up further, keep in mind we did our study back in 2016, so I'm sure there are new projections that could be inserted there and those probably would make an update or an improvement given that data has been -- it's over a year old by now, those projections.

MR. HOVDE: And then you mentioned the capital. If I understand one of your responses correctly, I thought you said you were using the labour price escalation for capital, and I believe the default values and what was used for the benchmarking work was the materials price escalation. I'm just wondering if you can confirm, or take as an undertaking to look into that to see which one was actually used.

MR. FENRICK: No undertaking needed. The index used there was the labour price escalation at 2.56 percent. We used that. We thought that was much more of an appropriate estimation of the projections for the asset price inflation than the GDP IPI, which I believe was a 1.57 percent number. Subject to check on that, but I believe that's the number there.

If you look back historically at the Handy Whitman indexes and basically the construction cost indexes that don't have financing costs included in them, a 1.5 percent projection is far too low. And we also looked back at PEG's work in the Oshawa PUC application, where you used an estimate there of 2.58 percent, I believe it was. So we felt that was much more in line with the reality of asset price inflation than the 1.57 percent number that was included as a default value.

MR. HOVDE: Thank you. Another difference between the TFP and benchmarking studies back during IRM 4 was the treatment of customer contributions, or it might be called CIAC. And my understanding is that these amounts were netted out of capital prior to all the calculations and the -- and it's also my understanding that the current capital expenditure data and the rest of the benchmarking work kind of has that piece not netted off.

Just wondering; did you do anything special to make a correction or adjustment for that? Can you address that question?

MR. FENRICK: Dave, are you relating the TFP work with the benchmarking work in that question?

MR. HOVDE: My main question is that -- it was first that the -- it's my understanding that the previous PSE study which you updated had CIAC or customer contributions netted off. So in other words, the capital stock was reduced to reflect that customers already paid for some of the capital, and that the plant additions from the benchmarking work, which I think you used to update the TFP study, did not net this stuff off, the customer contributions off.

And I'm wondering is that your understanding, or did you do some sort of adjustment for it, or just -- if you can just address that particular question.

MR. FENRICK: For the benchmarking -- and you're right that for the TFP work, the contributions in aid of construction were netted off. Basically the same procedure was used in the benchmarking of Hydro One, with the basis being the U.S. utilities, their data also does not include contributions in aid of construction. And so to make a consistent cost definition, we continued that netting-off of the CIAC.

MR. HOVDE: Next one is an econometric question --

DR. LOWRY: Sorry, can I interject? I wasn't clear about that.

So in your TFP work and you updated the industry TFP study, you used benchmarking data, but you also netted off the CIAC?

MR. FENRICK: For the TFP work, we used PEG's same calculations in there which in the benchmark and in the capital, netted off CIAC through that period.

MR. HOVDE: Just a quick follow-up on that, Steve. One of the differences you noted about the way the study was updated, you know, both the benchmarking -- both the benchmarking work done for the Board and your updated TFP study, there's a data switch that happened whereby we were able to get at, you know, gross capital additions because it was a newly reported item on the triple R, and my understanding is that after substituting that, those numbers were substituted in lieu of what was done previously, which was to take a look at the change in the plant balances to basically imputes the gross additions. And so it's not really the same -- so it really wasn't the same procedure used as before, as I understand it, and then the issue is just that if the -- you know, the question is whether or not the capital additions that you used to update the TFP was reflected, that that -- whether or not that reflected whether or not -- would -- I'm sorry. Whether or not the data you used to update the productivity study was gross or net of customer contributions.

MR. FENRICK: Okay. I see what you're asking about. Yes, you are correct that prior to 2013 there was the plant -- gross plant adjustment, where basically additions were imputed from the gross plant changes with, you know, with a retirement assumption and those types of things.

As we updated we did use the reported capital additions, and to the extent that those include the contributions in aid of construction then there would be a mismatch there.

MR. HOVDE: Okay. This question has to do with -- it's an econometric question. We had -- one of our guys looked at --

DR. LOWRY: Dave, I'm going to propose skipping this kind of complicated question, because the way we're going it's going to go well over an hour. Okay?

MR. HOVDE: [Voice cuts out] --

DR. LOWRY: Yeah.

MR. HOVDE: -- question --

DR. LOWRY: I'm sorry?

MR. HOVDE: I think you're up next.

DR. LOWRY: Yeah, okay. All right. Hey, Steve. Nice to be working with you on this. I've been looking forward to that. Haven't seen you for a while.

So let's go next to the response to OEB Staff interrogatory 25, and there is a discussion here --

MR. NETTLETON: Sorry, can I just interrupt. Again, for the benefit of the court reporter could you please identify who is now speaking and --

DR. LOWRY: Yes, surely.

MR. NETTLETON: Thank you.

DR. LOWRY: Sorry about that. This is Mark Lowry from Pacific Economics Group.

MR. NETTLETON: And also, it would be helpful if you're going to refer to an issue if you could please identify for the record what issue number you're speaking to.

DR. LOWRY: This is the issue about issue number 8, is proposed industry-specific inflation factor and the proposed custom productivity factor appropriate.

Okay. Can I proceed?

MR. NETTLETON: You've got the green light from the court reporter, thanks.

DR. LOWRY: Okay. Thank you.

So in 25 the issue comes up about why there isn't a scale escalator in the revenue cap index formula. And you say in your response to part A:

> "However, the existence of a capital factor within the escalation formula may be an adequate substitute for an output growth term."

And the "may be" part of that kind of caught my eye, and then you proceed to kind of work out the math of what such a scale escalator would look like.

And so my first question is, since you say that the capital -- you're not even stating definitively that the capital factor is an adequate substitute for a scale escalator. Would you agree that to add a scale escalator to the formula would be a reasonable alternative to paying for system expansion through the capital cost, the custom capital factor?

MR. FENRICK: First of all, hi, Mark. So if you look at a pure -- the pure mathematics indexing logic behind putting together an escalation mechanism, there certainly should be for a revenue cap index an output-type factor. And there I did say may be or at least partially the capital factor at least partially substitutes for that.

I think in this proceeding Hydro One has system needs that go beyond what a pure escalation factor might produce. However, if you look at -- so you look at the capital factor, and that's what Hydro One is putting forth as far as their capital needs. I would say certainly on the OM&A escalation if you look at the math there probably should be an output escalator there that adjusts for the increased output.

DR. LOWRY: And a follow-on question. You worked through the logic, and the logic involves introducing into the equation an elasticity-based output index. And -- which is a reasonable thing to do, but in reality when you look around North America, what they typically do in a revenue cap index is just use the number of customers. And in fact, that was done in an IR plan for Enbridge Gas Distribution just a few years ago in Ontario.

Would you agree that that could be a reasonable simplification of using an elasticity-based output index for the scale escalator?

MR. FENRICK: Basically, for a simplification, if you're looking for a simplification of the equation, that would be a reasonable one in the distribution industry, given that the number of customers is the primary cost driver for electric distribution.

DR. LOWRY: Okay. Now we go to OEB Staff

interrogatory 26, and Dave, I believe you were going to ask these questions.

MR. HOVDE: This is Dave Hovde again. The questions all relate to the electric utility construction price index, or EUCPI. Now, there are different EUCPIs for transmission, distribution, and substations. My understanding is that the EUCPI for power distribution was used the IRM4 work and subsequent benchmarking updates.

I'm just wondering what is your understanding about what is being used in -- kind of previously and what is being used in your study, and if you need to take an undertaking on that, that's fine.

MR. FENRICK: Dave, when you ask about what was used in my study, which study are you referring to? Because we used both the EUCPI and then the Handy Whitman. Are you referring to the Hydro One or the Ontario?

MR. HOVDE: Ontario.

MR. FENRICK: The Ontario? Yes, so for that we used the same index that the fourth-generation IR used in that.

MR. HOVDE: Do you understand that to be a distribution index as opposed to a transmission or other index?

MR. FENRICK: It's my understanding the actual one used was the T&D index, but that -- I could take that as an undertaking. I could be mistaken on that.

MR. HOVDE: Oh, that's fine. And if you could just -- take that as an undertaking, and then if you need to clarify any other responses in response to that, that would be welcome also.

The next question has to do with --

MR. SIDLOFSKY: Sorry, just before we move on to the next question, I think you've asked for an undertaking. Could you just try to describe that concisely for the panel?

MR. HOVDE: Sure. Please clarify which electric utility construction price index was used in the PSE work to update the industry study, and then clarify any other responses if required.

MR. SIDLOFSKY: And is the panel prepared to give that undertaking?

MR. FENRICK: Yes, we can do that.

MR. SIDLOFSKY: Okay. We'll mark that as J1.2 -- excuse me, JT1.2.

UNDERTAKING NO. JT1.2: TO CLARIFY WHICH ELECTRIC UTILITY CONSTRUCTION PRICE INDEX WAS USED IN THE PSE WORK TO UPDATE THE INDUSTRY STUDY, AND THEN CLARIFY ANY OTHER RESPONSES IF REQUIRED.

MR. HOVDE: The next question has to do with financing costs, which was mentioned prominently in the report. My understanding, when I look at a -- there is a publication called the -- something like the capital expenditure report, or something. I can get you the exact reference if you would need one eventually. But it's my understanding that the -- they have some detail into what goes into the EUCPI calculations and under the -- their financing piece is mentioned in there, but they're only under the transmission and substation indexes. I don't see one under the distribution. So it's a little uncertain to me whether or not the financing component really was in the distribution version of the EUCPI.

So my question -- you can add this to the undertaking, if you like to. But do you know anything about this, or could you undertake to look at this in the context of the previous undertaking?

MR. FENRICK: Dave, could you clarify the -- you referenced a document there.

MR. HOVDE: I believe it's called the capital expenditure price report, and I might be able to get you an exact reference by the time we're done here today, if that would help. It's a Statistics Canada publication that contains the electric utility price and construction price index, along with other construction price indexes, which was also discontinued around the time the EUCPI was discontinued. I'll try to get you an exact reference which I will be able to give you by the end of the questioning here.

And the question really is: Are you certain that the financing is part of the distribution EUCPI, and is it part of the distribution EUCPI, and of course that's only relevant if you believe you actually used the distribution EUCPI in your work.

MR. FENRICK: If our report, on page 24 of the PSE sole factor productivity report, we said the EUCPI -- this is page 24 -- the EUCPI also appears to contain the financial costs embedded in the index. Given that the -- and there on that same page, we reference that they used financing costs from the Bank of Canada in construction of the indexes.

We did look into this issue and frankly, it was unclear whether financing costs were included or not included. If you had a reference that clearly denotes that financing costs were not included, we would certainly take that under consideration. However, looking into the issue, it was unclear. And also given that the EUCPI index grows much less rapidly than the Handy Whitman indexes in the U.S. for construction costs gave us pause. That along with the fact that it was discontinued for -- on page 25 of our report, it says the program will be reviewed to ensure the models used in the future take into account current practices and construction. You know, for these reasons we were reluctant to use that index because it's just unclear what that index is actually measuring, and it's discontinued for further review, which is another reason for pause.

MR. HOVDE: In terms of which index you would use to update the discontinued EUCPI, I believe you used the Handy Whitman index for the U.S. I'm wondering, did you consider any other alternatives, in particular Canadian alternatives?

MR. FENRICK: We did not. We used the Handy Whitman index. It's a standard index. It's been around for decades. So that was the one we used. We did not consider any other indexes.

MR. HOVDE: Thank you. I think we're going to go back to Mark now.

DR. LOWRY: Okay. So if we could move on -- this is Mark Lowry speaking -- to OEB Staff interrogatory 31. We asked you to calculate the TFP growth that is implicit in the company's cost forecast through 2022 -- well, we actually asked for the productivity calculations.

And we look at this, this is one of the core issues in this proceeding, that you look at your econometric projections evaluation and then at TFP as well, it seems to suggest not much degradation in your cost performance in the next few years, and yet the company is asking for substantial supplemental capital revenue at the same time, and we're trying to reconcile this in our heads and how that can all make sense.

With respect to this, one thing we were hoping is you could resubmit this answer adding the O&M and capital productivity separately to the total factor productivity.

I guess that would qualify as an undertaking, and if so I can restate that, if anyone cares.

MR. SIDLOFSKY: We do care.

MR. NETTLETON: Mark, I believe Steve is about to give a response to your question, so if you just wait.

DR. LOWRY: Okay.

MR. NETTLETON: Let's see if he can help you before we have to record --

MR. HOVE: Okay.

MR. NETTLETON: Just give Steve a minute. He is just checking.

MR. FENRICK: Mark, just to clarify, so in our IR response 33 for OEB Staff, we provided the partial factor productivity indexes broken down for capital and OM&A. Are you essentially asking for the projection -- basically that same table, extended?

DR. LOWRY: Correct. Wait a minute, is that -- that's the Ontario. You're right that the partial factor productivity indexes were submitted in response to 33, but those were for the Ontario industry. So in this case, we're saying please can you give us partial factor productivities for Hydro One's cost forecast through 2022.

MR. FENRICK: Yes, that's something we can certainly put together.

MR. SIDLOFSKY: We'll make that -- sorry, Mark.

DR. LOWRY: Do you want me to state that as an undertaking request?

MR. SIDLOFSKY: It sounded like that was a request. The panel understands the request, right.

DR. LOWRY: Okay.

MR. SIDLOFSKY: We'll make that JT1.2.

UNDERTAKING NO. JT1.3: TO PROVIDE PARTIAL FACTOR PRODUCTIVITIES FOR HYDRO ONE'S COST FORECAST THROUGH 2022

FOLLOW-UP QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: Can I ask a follow-up question on that?

MR. SIDLOFSKY: Sorry, Mr. Shepherd. That's JT1.3.

MR. SHEPHERD: Can I ask a follow-up question on that, Steve? In School Energy Coalition Interrogatory No. 14, you said that OM&A contributed all of the positive TFP for Hydro One -- I think this is what you said -- and without the OM&A productivity, TFP would be zero.

Am I right in assuming that that means capital productivity is zero, TFP for capital would be zero? Or am I missing something in the calculations? The reference is I10-SEC-14.

MR. FENRICK: I believe that would be correct, that if you -- if the OM&A had increased at the inflation rate rather than Hydro One held it lower than the inflation rate, if it had went to the inflation rate, yes, then the TFP would have went to zero if the OM&A expenses had been at that inflation rate, that higher rate.

MR. SHEPHERD: So PFP (sic) OM&A is 0.5 and your PFP capital is zero for the past history, for the 2010 to 2015, right?

MR. FENRICK: I believe the TFP was positive .5 percent.

MR. SHEPHERD: But you're saying OM&A contribution is 0.5, so doesn't that mean that that's the PFP as well? That was my question really.

MR. FENRICK: Given that there's cost shares involved so I don't believe it would be the .5 percent.

MR. SHEPHERD: It wouldn't be exact?

MR. FENRICK: Wouldn't be exact, no.

MR. SHEPHERD: All right. In any case, this isn't responsive to the undertaking, because the undertaking is on your forecast, right?

MR. FENRICK: Correct. I believe Dr. Lowry is asking for the forecasted PFPs.

MR. SHEPHERD: Thanks very much.

CONTINUED EXAMINATION BY MR. HOVDE AND DR. LOWRY:

DR. LOWRY: If we could then move on to OEB Staff interrogatory 34, where this issue again arises about the input price forecast that you used in the benchmarking of the company's forecasted cost. And this is going to -- potentially is an issue in the proceeding of how that's done. And I have a follow-up question about this that I suppose also qualifies as an undertaking. And that is, did Hydro One state somewhere what its own input price inflation assumptions were in making its cost forecast? And if not, could they provide those assumptions?

MS. LEE: If you give me a minute I'll pull the evidentiary reference for you, Mr. Lowry.

DR. LOWRY: Okay.

MS. LEE: It's actually covered in section 2.1 of the DSP. Table 31 contains the assumptions regarding the distribution cost escalation for construction and distribution cost escalation for OM&A.

DR. LOWRY: Great. Okay. I'm --

MS. LEE: Sorry, sorry, sorry to interrupt. Additionally, there -- in Table 32 you'll see the CPI assumptions and in Table 33 the exchange-rate assumptions.

DR. LOWRY: Okay. Is that it?

MS. LEE: Yes.

DR. LOWRY: Okay. My next -- I'm trying to be mindful of the time that we said we would take for this. I don't know if there is any dispensation to extend our questions beyond the hour, but for the time being I'm skipping over a few questions to go to the most important question.

The next question then that I would like to turn to is actually Schools Energy Coalition's Interrogatory No. 15, which is about another important issue in this proceeding, which is the right way of measuring the capital asset value inflation. And the question was asked: Please provide an estimate of the quantitative difference between using Handy Whitman and using EUCPI for this TFP study.

And so you provided what would happen to the Hydro One trend if you used the EUCPI. And as I understand you correctly, the estimated trend would decrease by 90 basis points. Am I correct in that interpretation of your answer? Because you say approximately 0.9 percent, so I took that to mean 90 basis points.

MR. FENRICK: I'm sure there's some rounding in there, but, yes.

DR. LOWRY: Okay. So I think a reasonable follow-up question to that is that -- I mean, I don't know that Mr. Shepherd and his colleague were asking just for the Hydro One study, but also for the industry study that you provided.

And so my follow-up question, which could be construed as an undertaking, is, could you also recompute the industry productivity using the Handy Whitman index?

MR. FENRICK: That would be a very substantial effort, given that we used PEG's calculations and methodology up through 2012 and simply extended through 2013 and '14 and '15. I'm trying to think through the -- that would be a relatively large level of effort to redo the PEG study.

MR. NETTLETON: I'm just wondering if the information is available. Is there some reason why PEG could not undertake to do that themselves?

DR. LOWRY: Well, if it's a large effort for PSE, it would be the same size effort for us to do it, in fact probably a little bit more. I --

MR. NETTLETON: But, I'm sorry, I'm missing why it would be required. If you're filing evidence or participating in this proceeding, why there wouldn't be an opportunity for you to carry out the work that you think you need.

MR. SHEPHERD: Mr. Nettleton, when my turn comes to ask this question, I have that question too, and I was going to ask for exactly the same thing, and I do not have an expert to file it.

MR. NETTLETON: All the more reason to have PEG do the work, then.

MR. SHEPHERD: I would like the witness to tell us what the impact of the difference is on the industry study that he is comparing Hydro One to.

MR. NETTLETON: I think what he has told the group is that that analysis has not been done, it would take an inordinate amount of work, and what I'm trying to be helpful with with respect to the question that has been posed by an expert who is testifying is whether they could do the work themselves.

MR. SHEPHERD: Well, and I'm sure they could, and then Mr. Fenrick will say, no, you did it wrong, and then he will have to do it anyway, so why don't we just --

DR. LOWRY: Yes, that is my concern. That is my concern, is that he could say that you did it wrong, and --

MR. SHEPHERD: We have been down this road before.

DR. LOWRY: -- we'd like to have his own take on this. And incidentally, I don't know that it is such a -- I don't think of this as a monumental task to replace the asset price index. It's a matter of swapping out a, you know, a few lines of code.

MR. HOVDE: I agree with that, Mark. I don't think it -- it would not be that big of a deal to do, in my opinion, and I think it would be pretty straightforward to do.

MR. NETTLETON: Well, there obviously is a difference of opinion between the experts, and Mr. Fenrick has provided his response and his views and you have provided yours. And unless Mr. Fenrick wishes to change his views that it would take an inordinate amount of work, that's the position that Hydro One is taking.

MR. SHEPHERD: Sorry, is this a refusal to give the undertaking?

MR. NETTLETON: I'm asking the witness that.

MR. SHEPHERD: Because I'm going to ask for the undertaking too, so whether it's Mr. Lowry or me, you're being asked for the undertaking.

MR. FENRICK: Could I a couple questions of Mr. Hovde to see what the level of effort -- Dave, do you -- is there a file that has the -- the formulas for the fourth-generation IR proceeding as the formulas where we could simply swap out? It seemed like you indicated there is a file there that could just be swapped out. If you could provide us that file we absolutely could do that. When I gave my response I was thinking we had to redo all the formulas and the equations of the fourth-generation IR productivity study, which obviously is a large undertaking. But if you have the file already constructed and could provide that --

DR. LOWRY: Okay. Let me -- see, this is one of the problems of getting the working papers so late. Are you saying that you didn't actually create your own calculations of the earlier years, but you tacked on an estimate of where it would go from our original numbers?

MR. FENRICK: Yes, that's correct, Mark. So we took exactly what -- exactly your file from 2002 to 2012 -- sorry, PEG's file, and then tacked on 2013, 2014, 2015, so we don't have necessarily a working fourth-generation IR file. We used your results and then added those three years.

DR. LOWRY: Okay. Well, now in that event perhaps we should withdraw this request, Dave, because maybe it is easier for us to do it. I didn't understand that. Again, an awkward result of the working papers only recently being delivered.

MR. HOVDE: I just one real brief comment. The file is publicly available, and Steve, if you could just pull it down from the OEB website. It's -- it's --

MR. SIDLOFSKY: Sorry, could we just ask you to speak a little slower and more clearly there, please.

MR. HOVDE: Sorry, this is Dave Hovde again. The file that you would need to do the work is publicly available on the OEB website under the Renewed Regulatory Framework section. And it will be called something like TFP and BM database calculations corrected to, I think is the latest file. It will be something like that, but it will be the latest version on the website. And if you need any help to know exactly where to change the values, I can help you out with that.

DR. LOWRY: Dave, I think we should withdraw this undertaking, and if he wishes to challenge the recomputation, he can. He now knows where to find that code.

MR. SHEPHERD: Mark, it's Jay --

DR. LOWRY: And then you can ask whatever you like, Jay.

MR. SHEPHERD: I wonder whether the suggestion that one of you do the calculation and the other one look at it and agree to it would be the best for everybody. It doesn't sound like it's complicated. It sounds like --

DR. LOWRY: I think it's best for to us do it and he is free to review the work.

MR. SHEPHERD: All I'm suggesting is maybe Dave can get on the phone with Steve and work it out.

DR. LOWRY: We'll work it out.

MR. SHEPHERD: Thank you.

MS. DeMARCO: I'm sorry, if I can just intervene. It's Lisa DeMarco. Can I be clear on precisely what that undertaking was, or was not?

MR. SIDLOFSKY: It's not an undertaking, is my understanding. From that last exchange, PEG is going to do the work and discuss it with PSE and they're going to try to come to some sort of meeting of the minds as to the correctness of that.

FOLLOW-UP QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: Can I ask a follow-up question before we move on?

MR. SIDLOFSKY: Sure.

MR. SHEPHERD: Steve, in that same School Energy Coalition Interrogatory No.15 I10-SEC-15, where you talked about the 0.9 percent difference in productivity for Hydro One, if you use Handy Whitman instead of EUCPI, am I right in understanding that because Handy Whitman is an industry wide index, the impact on the industry TFP is going to be in that same ballpark of 0.9 percent? Am I right?

MR. FENRICK: Just to clarify, we used the North Atlantic Handy Whitman index, so it's not the full U.S. industry. But it is the distribution industry one. Likely, if you forced me to answer, it would likely be in that ballpark. But with cost shares and things, I couldn't give you the exact answer.

MR. SHEPHERD: If we're thinking bigger than a bread box, we know it's going to be something like that?

MR. FENRICK: Again, that would be my estimate.

MR. SHEPHERD: Thank you.

DR. LOWRY: We're already at 9:48, or 10:48 your time, so I'm going to ask before I proceed how much more time are you comfortable giving us for questions?

MR. SIDLOFSKY: How much do you think you need?

DR. LOWRY: To ask all the questions might take half hour. To parse them down a little bit or pare them down a little bit, I could probably make do with about fifteen minutes.

MR. SIDLOFSKY: Personally, I'm okay with fifteen minutes to a half hour. I think the questions are relevant so perhaps we can just continue with those.

CONTINUED EXAMINATION BY MR. HOVDE AND DR. LOWRY:

DR. LOWRY: Okay. Even then, I'm not sure how long it's going to take, so I'll go with the most essential questions. So I'm going to jump around a little bit, and the next thing I'm going to ask is OEB Staff Interrogatory No.43. This again is Mark Lowry talking, and this one is about the business conditions variables that are used in the study. I'll give you a moment to find that.

MR. SHEPHERD: It's I10, issue 10.

DR. LOWRY: Yes, issue 10, our program-based cost productivity and benchmarking studies filed by Hydro One appropriate.

MR. NETTLETON: Can you please just wait for a minute? We're calling up the interrogatory.

DR. LOWRY: Sure.

MR. NETTLETON: Thank you. Thank you, we have it now on the screen.

DR. LOWRY: In response to part A of that question, you talk about system peaks, and much of your answer is about whether or not the system peaks from the RECs are coincident or non-coincident, but a little -- an issue got left out of the response, and that is how you handle the system peaks of the investor-owned U.S. utilities.

Did you make any adjustment to those system peaks in this benchmarking work?

MR. FENRICK: No, we did not. We used the Form 1 system peak data reported that was for the entire system peaks.

DR. LOWRY: What do you mean when you say entire system peaks?

MR. FENRICK: I believe the actual verbiage in the FERC Form 1 is total system peaks.

DR. LOWRY: What system are you talking about?

MR. FENRICK: The system -- the utility in question, whatever utility it is that the observation is from.

DR. LOWRY: Is it for the distribution system, or is it for the transmission system?

MR. FENRICK: The FERC Form 1 simply says total system. It doesn't delineate between distribution and transmission, to my knowledge.

DR. LOWRY: Okay. Next question. You say that you used an employment cost index as the labour price index for Hydro One in the benchmarking work. And I assume that's because there was one available for total compensation, which is not available in Canada; is that right?

MR. FENRICK: That's one rationale. The second is I felt it was more consistent to use the same escalation index for Hydro One as the rest of the sample. I wasn't comfortable using a different escalation index for the one studied utility compared to the rest of the sample.

DR. LOWRY: I believe you didn't make the mention here that you did when you were talking, for example, about the GDP PI that for -- it seemed like for every year you were converting it to Canadian dollars using PPPs. Did you do that for the ECI as you did for these other price indexes?

MR. FENRICK: Yes. We did convert into the Canadian using the purchasing price parities. I would also add to that. So that was simply for the escalation part of the benchmarking study for the levelization, where we're looking at Hydro One's wage levels compared to every other U.S. utility's wage levels. There we used Canadian census data to construct what each occupation -- what wage level it is and put together a composite for that wage level, as well as all the U.S. utilities.

For instance, if you're serving New York City, you're going to have a higher wage level than Madison, Wisconsin. So we did that. That was like a levelization -- it was a

Canadian-specific levelization. It was only for the escalation method that we used the ECI.

DR. LOWRY: Speaking of those levelizations, did you use -- how did you levelize the REC data? How did you come up with input price levels for the REC data?

MR. FENRICK: Same procedures as with the investor-owned utilities, and Hydro One, where we looked at Bureau of Labour statistics, composites of what occupations are aggregated to make a transmission and distribution utility, you know, so the percentage of management positions, percent of what -- you know, a whole host of occupations. And we mapped that to the specific cities served by the utilities and then constructed it in the same manner.

DR. LOWRY: Now, speaking of the specific cities, did you do that for Hydro One as well? I know there are a lot of cities served. Or did you use just Ontario numbers?

MR. FENRICK: Just Ontario numbers. We basically said Hydro One serves all of Ontario and used Ontario numbers.

DR. LOWRY: Is it reasonable to assume that the wage rates paid by Hydro One are reasonably approximated by those for the province in view of the fact that it doesn't serve Windsor or the Toronto area or the Ottawa area?

MR. FENRICK: Yes, I think that is a reasonable assumption.

DR. LOWRY: Okay. Now, my next question, something caught my eye when I looked at that table, data set averages for most recent year. And I know that you included the RECs in the study to add more companies that had low customer density and perhaps for a few other reasons, more rural in general. But it caught my eye that the value of the square kilometre per customer variable was 0.765 for Hydro One and was 0.159 for the RECs. And, you know, if you're comparing Hydro One -- and now we're talking the new Hydro One that's acquired, you know, a lot more communities than they had in the past that aren't in such remote areas -- it just surprised me that Hydro One's value for that was so much higher than that of the RECs.

And so one question I have is, can you, you know, comment on the reasonableness of that; but secondly, it gets me to wondering about how square kilometres are calculated for Hydro One compared to how they're calculated for the RECs and for other companies in the U.S. part of the sample.

And it kind of gets back to the same area: Are you just counting a service territory defined as, you know, pretty close to where the wires are, or is it a broad region where in fact, you know, there are some pretty big chunks of territory where there are very few distribution wires?

MR. FENRICK: The first comment I'd make is, well, yes, Hydro One's value is .765 and the REC average value is .159. There is certainly diversity in that REC value. That's an average. There's rural electric cooperatives that are below that number and then also well above that number, and so --

DR. LOWRY: Could I just ask about that, Steve?

Because I didn't look real closely at that REC list. I mean, are there, you know, a lot of RECs from the rural east that are -- you know, where things are not quite as spread out that would pull that number down? I was thinking of the RECs as being more out in North Dakota or something.

MR. FENRICK: Right. There are -- there's 900-some RECs in the U.S., so there's a huge variance, if you will, of density from, as you mentioned, some on the east coast that have higher density values and then there are certainly ones that are much lower density. So it is a mixed bag.

I'm trying to think of -- there was an IR that asked about these conditions and how Hydro One compares. And there were rural electric cooperatives that were less dense than Hydro One when we examined that.

DR. LOWRY: So then can you address how Hydro One estimated its service territory?

MR. FENRICK: This gets to a prior answer, where it was the broad definition of the service territory of Hydro One. If you think about the fact they have to -- you know, maybe there are small little pockets of customers, but that's an enormous cost driver for Hydro One to be serving those pockets throughout its service territory. You know, it's got to have lines to run to those customers and provide service.

And so while you're right, there are probably some land areas in that that there are no customers, you know, where there are pockets and there's a few customers here and a few customers there, that's an enormous cost driver to Hydro One and is rightly put into the econometric model that way.

DR. LOWRY: So the square miles that was put in for -- in calculating this variable for Hydro One, did that come off of the GPS work? Or was this an independent calculation?

MR. FENRICK: Just to clarify, GIS -- it was the GIS work that we used to -- and it was the same Platt's data that we used for Hydro One as well as the rest of the sample. So there wasn't a Hydro One estimate. It was the -- using the GIS mapping to be consistent from Hydro One and the rest of the U.S. sample.

DR. LOWRY: Okay.

MR. NETTLETON: Mark, it's Gord Nettleton. Just one clarification that I would point out that was a premise to the -- I think a premise to your question related to the acquireds, that Hydro One acquired utilities that Hydro One has obtained. I'm just wanting to make sure that we're all on the same page, that the acquireds are not being integrated into Hydro One from a rate-making perspective until midway through this rate period and certainly would not have been reflected in the 2015 data that we're speaking of here.

MR. SHEPHERD: Can I just interject there, Mark, before you respond. There are, of course, 88 acquireds prior to that, right? And those are integrated.

MR. NETTLETON: Yes.

MR. SHEPHERD: And they're all small towns, exactly what Mr. Lowry was talking about. That's -- I just wanted to clarify that. Thanks, Mark.

DR. LOWRY: Okay. Sorry, I'm looking through here just trying to see what the best use of the next 15 minutes is.

OEB Staff Interrogatory No. 41 next, issue 10. Let me know when you're ready.

MR. FENRICK: I think we're ready, Mark.

DR. LOWRY: Okay. So the comment here was, your answer to part E, is you state "the pension and benefit expenses are not itemized on Form 7." And that prompts me to ask, well, is this then the reason that pension and benefits expenses are included in the benchmarking study?

MR. FENRICK: It's certainly one of the reasons. We couldn't exclude the pension and benefits from the rural electric cooperatives. We also, looking back at the Toronto Hydro custom incentive regulation proceeding, excluding pensions wasn't done by either us or PEG in the reply to our study. So using that as basis, we didn't exclude the pensions and benefits.

DR. LOWRY: But isn't it the case that Hydro One is proposing to Y factor pension expenses, so that the price cap -- the revenue cap index does not apply to pensions?

MR. NETTLETON: Mark, just for clarification, are you referring to the reg asset?

DR. LOWRY: That may be how it's termed, because I notice in the proposal you don't talk about Y factors. But then you have a section about deferral and variance accounts, and you may have used the term reg asset for that. But I believe you are proposing separate treatment of pension and benefit expenses of variance accounts so on. is that right?

MR. NETTLETON: Sorry, Mark, thank you for the clarification. You have some puzzled looks from the witnesses and I think that's because the area is probably best answered by a different witness. But because it is touching on pensions and benefits, that might be Mr. Chhelavda's area of expertise. For Mr. Chhelavda's benefit, could you restate the question?

DR. LOWRY: Isn't it the case that pension and other benefit expenses are not addressed by the revenue cap index, but instead addressed with deferral and variance accounts?

MR. CHHELAVDA: I'll try to answer this question as I understand it, but the only portion of pension and benefit costs that would go to regulatory accounts would be the difference between our forecast and actual. So that being said, the pension benefit costs -- I think you alluded to the fact that it's being treated as a Y factor. The answer would be no. It's only the difference between what actual costs are versus the forecast in the application.

DR. LOWRY: Okay. I don't see how -- I don't see that distinction.

So my next question is -- it seems that a lot of the methodology is explained by the limitations of the REC data, and the REC data doesn't even go to the end of the sample period. So prompting me to wonder how much of the cost of the study -- not asking what the cost was, but how much was devoted to the inclusion of this REC data?

MR. FENRICK: As far as basically the level of effort that we devoted towards the REC data; is that basically what you're asking, relative to the rest of the effort in the benchmarking study? I don't have an exact percentage. But I would say a considerable amount of time was devoted to collecting the rural electric cooperative data set and that's the 300-some utilities that we added to the data set. So that was a substantial effort.

I would also say one that I believe was very important to putting together a study for Hydro One, given just the rural characteristics exhibited by Hydro One -- you know, if you look at the investor-owned utilities in the U.S. as well as the other distributors in Ontario, there is no utility that exhibits those type of characteristics.

DR. LOWRY: My next question is about the benchmark year adjustment and that is discussed in your response to OEB Staff Interrogatory No. 42, which pertains to issue 10.

MR. FENRICK: Okay.

DR. LOWRY: So it first talks about benchmarking as you explained in your response to part C is 2002 for Hydro One. But for the RECs, you could go back to 1995 and for the U.S. utilities, you say that you can go back to 1988. But nonetheless, you used 2002 as the benchmark year for everyone, which is a pretty recent year for that.

Would you agree that in general, the 2002 benchmark year is going to -- just in general, is going to compromise the accuracy of a total cost benchmarking study?

MR. FENRICK: As we answered in part D of that interrogatory. PSE believed having a consistent benchmark year across the Hydro One and the rest of the sample provided the best and most accurate study. So I disagree with the premise in that question.

DR. LOWRY: Well, you say you disagree with the premise. But your actual answer to -- part D was does the use of the 2002 benchmark year reduce the accuracy, and you said yes, it does, yes it likely does.

MR. NETTLETON: It's Gord Nettleton. It strikes me that this line of questioning is broaching on testing the evidence as opposed to seeking clarifications, and it's sounding a lot like cross-examination. I'm just wondering if there is a clarification you're seeking regarding the answers that have been provided.

DR. LOWRY: Okay. Let me go on to my next question, and if you still feel that way, you can lodge a protest. As Mr. Fenrick just said, or he says in response to part D that if you had -- he acknowledges that using the 2002 benchmark year does reduce the accuracy. But that he says it's necessary in order to not introduce a bias into the study.

So here's my question: How can making data -- how can making data more accurate introduce a bias into the study?

In other words, by using the earliest benchmark year available for each utility, how does being more accurate mean bias?

MR. FENRICK: Just to clarify, when you said we're agreed on the accuracy, I agreed on the accuracy of the estimated capital cost for U.S. utilities, not on the accuracy of the study itself. I just want to clarify my answer in part D that when I said yes, the interrogatory asked the accuracy of the U.S. capital costs, not how to produce the most accurate study.

So when I said in part D that yes, it likely does, having an earlier benchmark year is better as far as calculating capital costs for the U.S. utilities. That certainly would be the preferred approach, and if Hydro One had had data going back before 2002, that is certainly the approach we would have made.

However, given that Hydro One has a constraint and 2002 is the earliest benchmark year, we believed it was a more consistent study to have everyone start in the exact same benchmark year. Otherwise it does certainly -- it could introduce a potential bias, an unknown one; maybe depreciation rates changed from 1988 to 2002. There was technology advances, you know, a whole host of unknown things. So we just felt, put everyone on the same playing field, have the calculations be consistent, and add the same benchmark year to avoid any of that potential bias issue.

DR. LOWRY: But as you say, you're not sure what bias is introduced by making the data more accurate. There might be a bias, you're saying; is that right?

MR. FENRICK: Right. We're basically saying in part D, introducing a potential bias into the study. So we're not saying definitively that there is a bias. We just -- we're more comfortable putting every -- making the calculations the same for the entire sample, including Hydro One, to avoid that potential issue.

DR. LOWRY: Now --

MR. SHEPHERD: Can I ask a follow-up to that, Mark?

DR. LOWRY: Yeah, sure.

FOLLOW-UP QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: Did you calculate the impact of going to 2002 instead of 1988 or 1995? Because normally you would do that, right?

MR. FENRICK: I do not believe we did that in this --

MR. SHEPHERD: Can you undertake to check and see?

MR. FENRICK: I'm 99 percent sure we did not examine that, given -- sometimes we would examine what that would do. We did not in this case.

MR. SHEPHERD: Is it difficult to do?

MR. FENRICK: To gather the data of going back to 1988 or -- and the rural electric cooperative data going back to 1995, and then you have to check 380 utilities for all those observations, so, yeah, it is -- I mean, it would be a considerable amount of work, which is why we didn't --

MR. SHEPHERD: Okay.

MR. FENRICK: We basically started with the assumption, this is how we were going to do the study, so we didn't test and cherry-pick what might be the best start year. We said 2002 is the most consistent and we went with that.

MR. SHEPHERD: Thank you.

CONTINUED EXAMINATION BY MR. HOVDE AND DR. LOWRY:

DR. LOWRY: But had you previously -- I can understand why you might not have gathered the data for the RECs, but had you previously gathered the requisite data for the U.S. IOUs back to the 1988 benchmark year that you mentioned?

MR. FENRICK: We certainly have that data for other projects that we've done, other benchmarking projects. I don't believe we gathered it specifically for this project. We do have that data around, but not put together for this project.

DR. LOWRY: Is it your understanding that when the OEB does its benchmarking to set the stretch factors that it uses a data set that uses the earliest benchmark year where available?

MR. FENRICK: Yes, that's my understanding, that in the fourth-generation incentive regulation proceeding there was two possible benchmarks: the 1989 benchmark year or the 2002 benchmark year for both of those. I would say 1989, the vast majority, I believe, subject to check, had -- was the benchmark year -- for most, though, was 1989, and then there was a handful of utilities that was 2002. And so there, you know, the 2002 was basically an accommodation that the data wasn't available to go back to

1989. Otherwise I would assume when PEG did the study they would have started in 1989 for all of the distributors if that data was available.

MR. NETTLETON: Mr. Sidlofsky, I'm going to suggest that -- it's now after 11:15. The break that was originally anticipated was to be at eleven o'clock, and I would like to have a break for my witnesses, please.

MR. SIDLOFSKY: I am going to call a break for now. But Mr. Lowry, how much longer do you think you're going to be?

DR. LOWRY: I'm trying to be -- pare my questions. I could ask one more question, or you --

MR. SIDLOFSKY: Tell you what, why don't we take a break now. It's just coming up on 20 after 11:00. We'll take a break until 20 to 12:00. In that time, Mr. Lowry, if could you check your remaining questions and see what you feel you need to ask to finish off.

DR. LOWRY: Okay.

MR. SIDLOFSKY: Thanks.

DR. LOWRY: Yes, I think there's just one. All right. Thank you very much.

MR. SIDLOFSKY: Thank you.

--- Recess taken at 11:20 a.m.

--- On resuming at 11:45 a.m.

MR. SIDLOFSKY: My understanding is Dr. Lowry has one more question related to the custom application. After that is concluded, we're going to be moving to Mr. Shepherd for Schools, who has questions for PSE as well. So Dr.

Lowry, are you still there?

DR. LOWRY: Yes.

MR. SIDLOFSKY: Great.

DR. LOWRY: Okay. I'll try to keep this real quick. So the reference now is I10-Staff-39, which discusses -- gets back again to this issue of the appropriate asset value deflator for the productivity index and the benchmarking work. And we had a previous round of questions surrounding what would happen if you used the Handy Whitman index to measure the productivity trend of the Ontario power distributors, it being noted that the productivity numbers that we get for -- that have been coming up from Ontario using the EUCPI are a good bit slower than those in the United States.

And Mr. Fenrick says, in response to part A of this question, that PSE believes that the EUCPI is not an appropriate inflation measure of construction costs and will distort measured TFP trends and measured input price inflation.

But then he goes on to say now that supposing alternatively that you use the Handy Whitman index, or presumably any other asset price index in the calculation of the industry productivity, and he then goes on to say that then there would be a need to compute an input price differential. And that prompts a couple of questions from me.

In view of the fact -- here's question number one. In view of the fact that the proposed inflation measure includes a labour price index, and that the capital cost -- custom capital factor is going to be updated to reflect any change in the cost of capital in a few years' time, do you believe that it's appropriate to do an input price differential calculation whatever the asset price index is?

MR. FENRICK: Yes, I would still be of that opinion. When you say there is going to be a cost of capital update, I believe that's on the weighted average cost of capital, so not the actual asset price inflation of what actual assets cost and how that's likely to increase over time. So the cost of a transformer or conductor or a pole, those types of costs I believe are not going to be updated in the middle of the CIR period.

So having an appropriate inflation price differential would -- one that matches the productivity factor would still be appropriate.

DR. LOWRY: Okay. So if that is your belief, why did you not undertake that exercise in your evidence?

MR. FENRICK: Essentially, it wasn't in our scope to look at an input price differential. Our scope was, first of all, mandated by the Board to calculate Hydro One's own total factor productivity. Then through the course of the project, we simply updated the fourth generation IR TFP estimates for 2014, 2014, 2015 without changing the methodology, except for the couple of things we've noted as far as the EUCPI be being discontinued.

So I believe that might best serve if there is some sort of fifth generation incentive regulation proceeding, that that issue should be explored. But it wasn't in our purview for this application.

DR. LOWRY: And that's my last question. Thank you very much.

MR. SIDLOFSKY: Thanks, Dr. Lowry. Mr. Shepherd?

EXAMINATION BY MR. SHEPHERD:

MR. SHEPHERD: Steve knows me. I don't think at this point I have any questions for anyone else.

My first question is on I10-SEC-10, and I want to start by asking a couple of questions about the attachment. I'm going to come back to part C in a second, but I want to ask some questions about the attachment.

On page 2 of the attachment, the term proposal is defined. Is that in the evidence, the proposal? I'm going to ask for a bunch of documents and what I'm going to ask you to do for all of these is to undertake to either provide us with the reference if it's in the evidence -- some of them might be; I looked, but I couldn't find it -- or provide us with the document.

So the first one is this proposal identified on page 2. So unless you know whether it's in the evidence, can you undertake to provide that, please?

MR. FENRICK: Mr. Shepherd, I believe the proposal refers to the statement of work which is further on in that document.

MR. SHEPHERD: No, I'm not looking for the statement of work. I think the proposal is your original submission in response to the RFP. That's what I'm looking for.

MR. FENRICK: Subject to check, I would have to look at if that proposal exists, or whether that statement of work served as the proposal. I'm not a hundred percent certain if there is a separate document available.

MR. SHEPHERD: The statement of work that's attached to this would be noncompliant with the RFP document. So I'm assuming that there is something different that was compliant with the RFP documents.

MR. FENWICK: Subject to check.

MR. SHEPHERD: Will you undertake to provide that?

MR. FENRICK: Yes.

MR. SIDLOFSKY: JT1.4.

UNDERTAKING NO. JT1.4: WITH REFERENCE TO THE TERM "PROPOSAL" ON EXHIBIT I10-SEC-10, ATTACHMENT PAGE 2, TO PROVIDE THE PROPOSAL'S EVIDENTIARY REFERENCE IF IT IS FILED OR TO PROVIDE A COPY

MR. SHEPHERD: On the next page, page 3, there is a document entitled purchase order. I think it's defined here somewhere -- no, not even defined, just referred to. This is under 5 A, you see that? "The contract price shall be as referenced in the purchase order."

Now, if all the purchase order does is just set out the price, I don't need to see it. But normally purchase orders do more than that, so I'm going to ask you to undertake to provide the purchase order, please. That I'm sure is not in the evidence.

MR. NETTLETON: If you give us one minute, Mr. Shepherd? We're checking on your memory.

We will undertake to check, or to provide the purchase order.

MR. SHEPHERD: Thank you.

MR. SIDLOFSKY: Just to keep track of these, that's JT1.5.

UNDERTAKING NO. JT1.5: WITH REFERENCE TO A "PURCHASE ORDER" MENTIONED ON EXHIBIT I10-SEC-10, ATTACHMENT PAGE 3, TO PROVIDE THE PURCHASE ORDER'S EVIDENTIARY REFERENCE IF IT IS FILED OR TO PROVIDE A COPY

MR. SHEPHERD: Sure. Then in the statement of work, which is attachment 2, I have a number of documents I need. But I want to ask you about a statement in the statement of work in section 2.1. You'll see where it says in the third paragraph there, it says:

> "Our project plan remains flexible and based on the needs of Hydro One."

Does that refer only to the operational components, timing and stuff like that? Because one could read it as we'll do whatever you tell us to do. Or you could read it as if you want things faster or slower or in a different order we can do that. Which is it, or neither?

MR. FENRICK: It certainly refers to the timeline of the project. I would say it also -- this is a case of that, where we added research to the scope, as far as looking at the Ontario TFP as well as the benchmarking evaluation.

I believe this first scope of work was focused only on Hydro One's TFP evaluation. In the course Hydro One decided that an Ontario TFP update as well as benchmarking would be useful, and so it refers to those needs as well.

MR. SHEPHERD: Okay. I understand. So then on the next page it talks about the steps in the process. And the second step here is, prepare a draft study proposal, which is also indeed in one of your later documents. And that draft study proposal is not in the evidence, so I wonder if you could provide that, please.

MR. FENRICK: Yes, we can provide that.

MR. SHEPHERD: Thank you. Then --

MR. SIDLOFSKY: Sorry, JT1.6.

UNDERTAKING NO. JT1.6: TO PROVIDE THE DRAFT STUDY PROPOSAL.

MR. SHEPHERD: Sorry. I'm just so excited.

If you look at number 7 there, you then worked with your own engineering people -- you're not an engineer, right, Mr. Fenrick?

MR. FENRICK: That's correct. I'm a trained economist.

MR. SHEPHERD: Okay. Economists are good too.

MR. FENRICK: I appreciate that.

MR. SHEPHERD: But you worked with your own engineering people at PSE and with Hydro One to produce a list of plausible variables; right?

MR. FENRICK: Right. As far as discussions. I'm not sure if we actually produced an actual list, but there were certainly discussions with the engineering and Hydro One.

MR. SHEPHERD: Well, here is -- so here is what I'm looking for. I'm looking at the list before you cut out all the stuff that you decided wasn't -- weren't appropriate variables. What's the menu that you chose from to get to the ones you ended up with?

MR. FENRICK: Subject to check, I'm not sure if an actual physical list exists of the variables. There was ongoing discussions, and frankly, in our benchmarking practice for other clients, we have ongoing discussions with the engineers at PSE, so I don't know if there is a physical variable list that exists --

MR. SHEPHERD: Well, so here's what I'm going to ask you to undertake, is to either look and see if there is a list or something that can help us to understand what you started with, or prepare one, if that's possible, of the variables that were considered, and if neither is possible just say so. Can you do that?

MR. FENRICK: Yes, we can do that.

MR. SIDLOFSKY: JT1.7.

UNDERTAKING NO. JT1.7: TO PROVIDE, OR PREPARE AND PROVIDE, A LIST OF VARIABLES THAT WERE CONSIDERED, OR TO ADVISE IF NEITHER IS POSSIBLE.

MR. SHEPHERD: Then number 13 here is prepare the draft TFP study and preliminary results. And that's not in the evidence, right?

MR. FENRICK: That's correct.

MR. SHEPHERD: And so I wonder if you could provide that then?

MR. NETTLETON: I'm going to ask that the witness not answer or provide the undertaking on the basis that the evidence that Hydro One is relying on is the study, the final study. That is the application that's before the Board. And consistent with how Hydro One has responded to other requests of this nature of seeking draft reports, draft studies from third-party experts, we have declined to provide that information. And on that basis we are -- I am advising the witness to do the same and take the approach the same.

MR. SHEPHERD: Mr. Nettleton, our position in the hearing is going to be that Mr. Fenrick is not qualified as an expert because he is not independent. We're looking for -- and I was going to come to part C of this same interrogatory response, which was a refusal to provide the feedback that you gave to him. We're looking for that information because that will tell or help the Board understand whether Mr. Fenrick's evidence is in fact independent or not. And so if you refuse to --

MR. NETTLETON: I don't --

MR. SHEPHERD: I'm not finished.

MR. NETTLETON: Well, I am, and I'm telling you that this is a matter that we're wasting time on. There is an objection. It's not going to be resolved here, Mr. Shepherd. I would suggest that the matter be taken to the Board to have the Board decide.

MR. SHEPHERD: Fine. And so I assume that then item 14, receive feedback from Hydro One, that's also a refusal?

MR. NETTLETON: Yes.

MR. SHEPHERD: Thank you. And I assume that in part C of I10-SEC-10, where it says "provide the proposals for edits to drafts" and stuff like that, which you've said, no, it's too hard, you're going to decline to provide that as well.

MR. NETTLETON: The answer as provided is not changing, sir.

MR. SHEPHERD: Well, sorry, you're refusing now for a different reason. You're saying you're not entitled to see this, you're only entitled to see our final report. In this interrogatory response you said that the reason we can't do it is because it's too hard, it's too much work. So which is your reason for refusal?

MR. NETTLETON: I think they're both.

MR. SHEPHERD: Okay. Thank you.

My next question is on attachment 3 of that interrogatory response on page 3 -- or actually, I have a question on page 2 first. When you say a repeatable TFP study, what are the criteria that you use to determine whether it's repeatable?

MR. FENRICK: Sorry, Mr. Shepherd, where does it say "repeatable"?

MR. SHEPHERD: I'm in the terms of reference on page 2, "design and complete a repeatable TFP study for Hydro One's distribution business", and I just want to know what criteria you use to determine whether your study is repeatable or not.

MR. NETTLETON: Sorry, we're still trying to find the document you're referring to, Mr. Shepherd. Just give us a minute.

MR. SHEPHERD: Attachment 3 --

MR. NETTLETON: It's on the screen?

MR. SHEPHERD: Yes, so go down, 2.1 -- no, sorry, attachment 3, page 2, and there you go. Part A1.

MR. NETTLETON: Part A --

MR. SHEPHERD: "Design and complete a repeatable TFP study for Hydro One's distribution business."

MR. NETTLETON: Sorry, you're under 3.1A now?

MR. SHEPHERD: I just read it off the screen.

MR. FENRICK: Mr. Shepherd, by "repeatable" we mean the formulas are transparent. We provided the Excel file that can be replicated by any knowledgeable consultant. It can be updated as we have in the IR responses to incorporate future years.

And so by "repeatable" we mean that it can be transparent, it can be repeatable by other consultants. It can also be updated as new data becomes available.

MR. SHEPHERD: So -- that's what I was getting at. So when you say "repeatable" you mean replicable in the scientific sense, right, another scientist could replicate it, and repeatable in the sense of being able to be updated and moved forward sort of by Hydro One or by new experts or even by yourself for Hydro One later?

MR. FENWICK: Correct.

MR. SHEPHERD: Okay. Thank you.

Now, on the next page we talked about the draft study proposal, which you're going to provide. The -- it says here "provide interim progress reports as requested by Hydro One." That's on item 5, and I'm going to ask for that. I assume you're going to refuse, but I'm going to ask that you provide that.

MR. NETTLETON: You are correct, we will be refusing to provide that information.

MR. SHEPHERD: And then item 6, the draft TFP study and preliminary study results, that's the same document that we talked about before in the statement of work, correct?

MR. NETTLETON: It is the same issue, sir.

MR. SHEPHERD: I'm asking whether it's the same document, then if it's the same document you've already refused to provide it.

MR. NETTLETON: Whether it's the same document or not, it's the same response that we're providing of, we're refusing to provide draft studies and preliminary studies.

MR. SHEPHERD: I'm asking a question; is that the same document. Are you refusing to say whether it's the same document?

MR. NETTLETON: Just trying to short-circuit your ultimate request, sir.

MR. SHEPHERD: So are you refusing to say whether it's the same document?

MR. NETTLETON: Mr. Fenrick, maybe you can help us out whether the -- the question, as I understand it from Mr.

Shepherd, is whether the reference to item 6 under part A is consistent with the documents referred to earlier in the scope of work where there is reference to draft TFP studies and preliminary studies. Are they the same or are they different documents?

MR. FENRICK: They would be the same.

MR. NETTLETON: Thank you.

MR. SHEPHERD: So then my next question is on I10-SEC-13, and you might also want to get I8-Staff-32 up because the answer refers to that.

So first of all, Mr. Fenrick, you don't have an opinion -- I think we heard this earlier. You don't have an expert opinion on whether --

MR. NETTLETON: Just wait for the document to come up. Thank you.

MR. SHEPHERD: As I understood your answers earlier, you don't have an expert opinion on whether Hydro One has a particular problem with aging capital infrastructure, either more or less than the rest of the industry. You don't have an opinion on that?

MR. FENRICK: That's correct.

MR. SHEPHERD: And you have done no review of their capital evidence to determine whether they have a capital infrastructure problem, right?

MR. FENRICK: That's right. I'm certainly not an expert in that area.

MR. SHEPHERD: And as you said earlier, you're not an engineer; you're an economist, right? So you just accept their numbers and it's up to other people to debate whether their numbers are good numbers or bad numbers; fair?

MR. FENRICK: That's fair.

MR. SHEPHERD: In your evidence, this is your -- I don't remember which study it is, but it's A3-2-1, page 13. If I can find it -- A3-2-1, page 13. When you say here "a common external circumstance that is changing across the electricity industry", blah blah blah, "is the aging of capital infrastructure", and you talk about why that is and et cetera, is this something that is in your personal knowledge? Or is this sort of what people generally in the industry believe is true?

MR. FENRICK: In ongoing discussions with PSE's engineering experts, where we have a number of clients throughout North America where we do the engineering and those types of services, our experts are of the opinion there is an aging infrastructure issue, a common theme that we experience. So that is from those discussions where PSE's engineering experts would agree with that.

And I believe also throughout the industry it is a common theme that there is an aging infrastructure due to the baby boomers and those types of issues, where infrastructure is getting older and is in need of replacement generally. Now, that's not true for every utility, but that's a general finding.

MR. SHEPHERD: The statement in this report then is the opinion of PSE engineers?

MR. FENRICK: Yes, that's fair.

MR. SHEPHERD: Which engineer is it? And can we have their CV, please?

MR. NETTLETON: I'm going to object to the question. The report is being prepared and is produced by PSE. We're getting into a level of detail, Mr. Shepherd, that is not warranted for the purposes of this proceeding. I'm objecting to the question.

MR. SHEPHERD: Mr. Fenrick is not an expert in this area. This is his expert report, so if this is not an expert opinion of Mr. Fenrick, it is either not an expert opinion -- in which case, I'm going to ask him to take it out of the report -- or it is an expert opinion of somebody else, in which case I get to cross-examine them.

I don't see another option, Mr. Nettleton, sorry.

MR. NETTLETON: I would ask Mr. Shepherd what probative value there would be to know the name and the CV of engineers that are employed with PSE.

MR. SHEPHERD: Because the --

MR. NETTLETON: It is a statement of general observation and, I think, understanding. I mean, books have been written on the subject. Look at the grid. It's not a controversial statement that's being provided here.

MR. SHEPHERD: It's a statement that utilities say all the time, hoping we'll believe it, and many customers don't believe it.

MR. NETTLETON: If you would like to test whether asset age and condition as it relates to this application is something of concern to Hydro, One and you wish to seek to test that premise, I encourage you to do so with the right engineers and the right panel, which happens to be the next panel.

MR. SHEPHERD: So you're refusing to provide the expert information with respect to this purported opinion?

MR. NETTLETON: If Mr. Fenrick wishes to provide names of the employees at PSE who are engineers who he consulted with, fine. But again, I'm just asking -- I'm struggling with the probative value and the utility of these types of questions for purposes of technical conference.

MR. SHEPHERD: Will you tell us whose opinion this is or not?

MR. NETTLETON: It's a statement, sir. It's not an opinion. It doesn't say "in our opinion."

MR. SHEPHERD: I'm sorry, I just asked that question. It's on the record. Mr. Fenrick said this is an opinion of PSE engineers. I want to know whose opinion it is. You can say no. Just say no, if that's what you want.

MR. NETTLETON: Mr. Fenrick, could you please provide Mr. Shepherd with the names of the engineers at PSE who hold this view, or believe this view to be accurate?

MR. SHEPHERD: Okay, undertaking?

MR. FENRICK: I can provide it. Erik Sonju, who is president of Power System Engineering, is the main -- my main point of discussion as far as engineering matters, and he is a professional engineer in a number of states.

MR. SHEPHERD: We should treat this as his opinion? Fair?

MR. NETTLETON: Again, Mr. Shepherd, the language of the statement is not prefaced by the word "opinion." You keep going back to suggest that is an opinion. It is a statement found in an expert report. It has been stated by Mr. Fenrick to be the views of PSE. Mr. Fenrick has now provided who at PSE is an engineer who would share this view, and I think we should now be moving on.

MR. SHEPHERD: That's fine. So you're refusing to provide the information?

MR. NETTLETON: I think we provided the information, Mr. Shepherd.

MR. SHEPHERD: That's fine. My next question is on I10-SEC-17. Dr. Lowry asked some questions about this, and that covers most of my questions. But I just wanted to ask and perhaps the easiest way to do this is can you look at I10-SEC-19? You'll see that there's a figure there, and this is actually a figure from your report, right, that I think extends to the year.

MR. FENRICK: That's correct.

MR. SHEPHERD: Am I right in understanding this, that if you use Handy Whitman instead of EUCPI, the primary difference is financing costs, right?

MR. FENRICK: The indexes themselves are constructed differently. The EUCPI is fairly unclear as far as how it's actually constructed. I'm sure there are other differences.

One of our concerns is that financing costs appear to be included.

MR. SHEPHERD: So in the period like -- we see, for example, from 2011 onward, productivity declines in the industry pretty dramatically. Prior to that, it was fairly even and it's right, isn't it, that during that period where it stayed pretty constant, that's the same period when financing costs were going down?

MR. FENRICK: That's my general viewpoint as well.

MR. SHEPHERD: And so -- and then when financing costs levelled out around 2011, the productivity goes down. Is it reasonable for us to extrapolate from that that the trend without financing costs has been negative productivity for a relatively long period of time?

MR. FENRICK: That would be reasonable. Even with the financing costs the trend is negative --

MR. SHEPHERD: No, the trend is negative after 2011, but I'm asking before that for that whole ten years it's fairly flat except the financing costs were going down.

MR. FENRICK: You mean the 2002 to 2010 period?

MR. SHEPHERD: Yeah.

MR. FENRICK: If we had an index that did not include financing costs, I mean, the answer would certainly -- that table would change. How dramatic it would be is unknown, but...

MR. SHEPHERD: All right. My next question is I10-SEC-18. And so one of the things you did in your study which the -- which other studies in Ontario have not done is you assigned a weight to outputs of reliability, right?

MR. FENRICK: That's correct.

MR. SHEPHERD: And so -- and that weight is in fact 38.5 percent, right?

MR. FENRICK: The combined weight with the SAIFI and CAIDI is 38.5 percent --

MR. SHEPHERD: All of the reliability component is 38.5 percent.

MR. FENRICK: Correct.

MR. SHEPHERD: Okay. And the Board's approach assigns a value to reliability outputs of zero, implicitly.

MR. FENRICK: Because they're not included?

MR. SHEPHERD: Yes.

MR. FENRICK: Yes.

MR. SHEPHERD: And so the only outputs are -- the common outputs in the two studies are load and demand, load and customer count, right?

MR. FENRICK: There's three components in the study: number of customers, kilowatt-hour deliveries, and then demand, maximum peak demand variable.

MR. SHEPHERD: And so what you've done in your study is you've reduced the weight of those other three by 30 -- the inverse of 38.5 percent in order to put in reliability. Reliability is actually the biggest weight in your study, right?

MR. FENRICK: This gets into a fairly complex discussion. So the weights for the cost components aren't actually reduced. We're talking -- we're now doing a three-dimensional study, if you will. And so if you think about a utility, if they're serving 1,000 customers with a given reliability level, if they then double to 2,000 customers with that same reliability level, they actually still doubled. You know, they didn't -- just because the SAIFI or CAIDI didn't improve by double, they still doubled in size. And so that's how our study accounts for this. So it's -- and we're getting the two-dimensional cost variables of number of customers, kilowatt-hour deliveries, and maximum demand. They still get the same weights that they've always gotten. Now we're adding this third dimension of reliability into the study.

And so it wouldn't be fair to say we're reducing the weights of those three other outputs. They're still being weighted the same way, but now we're adding this third dimension into the total factor productivity, the adjusted total factor productivity.

MR. SHEPHERD: I always thought that when you used percentages if you add something with another percentage you either change your fraction or you reduce the effective weight of the other things. How is that not possible -- not the case here?

MR. FENRICK: Because of the third dimension that we're referencing, in that, in the example, if you have 1,000 -- say we're only using one output, number of customers. Even if the reliability doesn't change, in our TFP, the adjusted TFP, if those number of customers doubles, our output measure would still double. We're just adding that extra dimension of reliability and adjusting based on those weights one way or the other. In our working papers, you want to look through, are the working papers for the equation.

MR. SHEPHERD: I will look at them.

And my last question is in Exhibit -- I think it's my last question. It is -- is in I10-SEC-24. So if I understand your response to this correctly, the marginal -- is this 1,026 incremental cost of another customer, is that a marginal cost or is that actually the total cost because it's a benchmarking study, the total allocated cost of all customers?

MR. FENRICK: That would be -- if Hydro One added one customer, that would be the increase in the benchmark costs, would be that 1,026 number. And so if Hydro One added one more customers, our models would say costs would go up by that 1,026 number. So that could be thought of more as a marginal cost rather than an average embedded cost or something like that.

MR. SHEPHERD: All right. Thank you. That's all my questions.

MR. SIDLOFSKY: Thanks, Mr. Shepherd.

I'm going to ask if anyone else has questions for PSE or, I guess more broadly, questions on the custom application group of issues.

MS. DeMARCO: Mr. Sidlofsky, we have potentially a few. I'm not sure if they're most appropriately asked of this panel. But we can try and see where we go with that. They are probably about ten minutes.

MR. SIDLOFSKY: Sure.

EXAMINATION BY MS. DEMARCO:

MS. DeMARCO: Predominantly, Mr. Fenrick, they respond to or are in relation to Board Staff IR number 43 and Board Staff 34, which you've been asked questions about this morning. And really, there is some debate in and around the EUCPI and the associated Handy Whitman index, particularly around your relationship in the -- in relation to generating the North Atlantic data for that index. And specifically, my questions are very targeted at, I just want to better understand the relationship between PSE and PEG, and specifically your relationship with Mr. Lowry.

Am I correct in assuming that at one point you two worked together?

MR. FENRICK: Yes. I believe it was approximately nine years ago I worked at PEG as a senior economist. And then I guess it was 2009 when I came to PSE.

MS. DeMARCO: And your reporting relationship or collegial relationship with Mr. Lowry was what?

MR. FENRICK: Relationship when I was working there --

MS. DeMARCO: Yes.

MR. FENRICK: -- or afterwards? I think it was fairly collegial, and we worked well together.

MS. DeMARCO: Sorry, I haven't been precise. Did you report to him or did --

MR. FENRICK: Oh, yes, yeah, he was -- I reported to him.

MS. DeMARCO: Those are our questions. Thanks.

MR. SIDLOFSKY: If no one else has questions on the panel for the custom application group of issues, my suggestion would be that we move on to the general group of issues. However, it's just coming up on 12:25. I think it might be good to take the lunch break now so that we can start in with the general group right after lunch, so if we could come back at 1:35 that would be great.

Mr. -- sorry, Mr. Nettleton?

MR. NETTLETON: Thank you. Sorry, I saw Mr. Brett raise his hand, and I just want to make sure that no one else has questions for Mr. Fenrick and that Mr. Fenrick could be excused then over the lunch break and get back. But I just want to make sure Mr. Brett didn't have any questions.

MR. BRETT: No, I don't have any questions, thank you, for Mr. Fenrick.

MR. SIDLOFSKY: Thank you. So we'll break until 1:25 (sic).

--- Luncheon recess taken at 12:25 p.m.

--- On resuming at 1:25 p.m.

MR. SIDLOFSKY: Good afternoon. We're back on the air, and we're going to be going intervenor by intervenor on the rest of the issues groups for panel 1. I discussed the order of the questions briefly with many of the intervenor representatives here. Board Staff will be going last on the rest of the issues groups. We don't have a lot of time or a lot of questions on the other areas, so I would like to start with the Society.

EXAMINATION BY MR. DUMKA:

MR. DUMKA: Hello, panel. I am Bowden Dumka with the Society. It was nice saying hello to a few of you on the elevator up for this.

The first question I have is on Society IR number one. We just asked when the financial statements will be provided, and I just want to get a little bit more detail.

In your answer, it says Hydro One will submit the audited 2017 MD&A and consolidated financial statements, once available. Approximately when will that be?

MR. CHHELAVDA: The financial statements are now available, so we can provide them.

MR. SIDLOFSKY: Is that an undertaking?

MR. CHHELAVDA: These are the financial statements for Hydro One Limited?

MR. DUMKA: That's right.

MR. CHHELAVDA: And Hydro One Inc.

MR. SIDLOFSKY: That sounded like an undertaking to provide them. That will be JT1.8.

UNDERTAKING NO. JT1.8: TO PROVIDE THE MD&A AND CONSOLIDATED FINANCIAL STATEMENTS FOR HYDRO ONE LIMITED AND HYDRO ONE INC.

MR. CHHELAVDA: Just so we're clear, in part of our response, we also talk about the financial statements for Hydro One Distribution. Those are not yet available and will not be available for some time.

MR. DUMKA: That was my next question. When will they be available, the Distribution statements?

MR. CHHELAVDA: I believe they will be available towards the end of April.

MR. DUMKA: Can we get an undertaking to file them once available at the end of April?

MR. NETTLETON: I believe the undertaking isn't necessary. As much as my pool bid is important to undertakings, but I don't think the undertaking is necessary because the IR says that we will be submitting the audited 2017 financial statements once they are available.

So the intent is they will be filed when they are available. I don't think we need an undertaking to duplicate.

MR. RUBENSTEIN: I assume, because there are lots of questions throughout this where you say you'll update 2018, you'll just update those IRs? You'll file updated IRs for all those types of questions? There's many IRs that say this information --

MR. NETTLETON: It does effect my bet on the pool that's established, because I'm killing myself by saying yes, that's right.

MR. BRETT: If I may, there are two sets of financial statements we're talking about, right? I want to make sure I understand this. The corporate financial statements of Hydro One Inc. are now available as you say, they're on the street.

MR. CHHELAVDA: That's correct.

MR. BRETT: So they can be filed immediately?

MR. CHHELAVDA: Correct.

MR. BRETT: The second type of statement he referred to, I understand it to be the regulatory financial statement; is that right? What did you mean by another set of financials? What entity were you referring to when -- the most recently?

MR. CHHELAVDA: I said that in terms of what's available right now are the financial statements for Hydro One Inc. and Hydro One Limited.

MR. BRETT: Hydro One Limited as well?

MR. CHHELAVDA: That's right.

MR. BRETT: So those two are being filed?

MR. CHHELVADA: Correct.

MR. BRETT: Did you say another set of statements would be filed in April? What was that about?

MR. CHHELAVDA: No, no, the Hydro One Distribution carve out financial statements.

MR. BRETT: That's the regulatory statements.

MR. CHHELAVDA: Hydro One Distribution statements, those would be separate distribution financial statements.

MR. BRETT: All right. Which include both the regulated industry and other parts of Hydro One Distribution?

MR. NETTLETON: Mr. Brett, I think the confusion here is that Hydro One Networks Inc. includes both transmission and distribution. And the commitment that we're making in this IR is submitting when they are available the Hydro One distribution financial statements.

MR. BRETT: That's helpful. Thank you.

MR. DUMKA: My last question of clarification, is it going to be any update of the 17 evidence to reflect the distribution actuals that will be filed at the -- the financial statements at the end of April? I suspect this is what Mark was referring to.

MR. CHHELAVDA: Perhaps I can answer that. In instances where we say we will update information as it becomes available, we will do that. So I hope that answers the question.

MR. RUBENSTEIN: There's many IRs where you're asked to provide 2017 actuals and you'll do that when that's -- the '17 actuals, you'll do that when that's available, which I understand is late April.

MR. CHHELAVDA: Correct.

MR. RUBENSTEIN: Are you as well going to update the requests in the relief to application to take into account 2017 actuals, so final 2017 -- updating the opening rate base in 2018 to reflect 2017 actuals?

MR. NETTLETON: Mr. Rubenstein, I think the answer is that's the intent, that we will be doing an update to the application to take into account the new information related to the 2018 actuals -- sorry, the 2017 actuals. We're not there yet. Let's hope we're not going to be there.

MR. DUMKA: I think that's everything I wanted to cover on that interrogatory. The next one is Society number 8, and actually it's the reference that's provided there which is Staff 215, attachment 1; that's the OPEB valuation. And if you can go to Staff number 215, attachment 1, page 2. I've got one question on that. So there's your valuation.

At the bottom of page 2, it says it's to be finalized on the year end 2017 discount rate. I just wanted to get confirmation that that is what we have in the filing. It does reflect the year end 2017 discount rate?

MR. CHHELAVDA: Subject to check, I believe that's correct.

MR. DUMKA: Okay. Should we have an undertaking on the subject to check?

MR. CHHELAVDA: Yes, please.

MR. SIDLOFSKY: JT1.9.

UNDERTAKING NO. JT1.9: TO CONFIRM WHETHER THE OPEB VALUATION SHOWS THE YEAR END 2017 DISCOUNT RATE.

MR. DUMKA: That was the only question I had on that one.

This one is going to be a bit more complicated. It's Society number 10. What we did here is we asked a series of questions about updating the Mercer compensation benchmarking study to reflect changes that we have in pension contribution costs, OPEB costs, this, that, and the other thing, the impact of below inflation wage increases.

And generally, the response, if I understand it correctly, is that Mercer uses their own methodology to come up with a valuation of the compensation value of pension and OPEB. So for example, lower pension contributions from Hydro One don't get reflected, the costs in that particular year in '17, '18 of the lower pension contribution costs, lower OPEB costs. I just want to confirm that, that there is actually a disjoint between the annual compensation costs that Hydro One incurs as compared to the Mercer methodology.

MR. McDONELL: I'll take that one, Mr. Dumka. That's absolutely right. There is a difference between a cost benchmarking and a value benchmarking. And what I've come to learn, after speaking to both Mercer and Towers Watson, is it's he not just a Mercer approach to valuing pensions and benefits. It's generally that's the standard within compensation studies.

So they look at the value, and the value is really the present value of the benefits that an employee will receive once they retire. So they look at things like the plan design. They look at assumptions such as mortality rates, and with that they're able to put a value on it. So they're not looking at the cost.

So any input we have in terms of employer contributions or how much it costs us to fund the pension plan is not relevant. It's not even data that we gave Mercer. So I took a look at that IR, and a lot of the questions we just simply can't answer because it's not relevant to a rerun of the study.

MR. DUMKA: Or to the methodology --

MR. McDONELL: Or to the methodology; that's right.

MR. DUMKA: -- Mercer uses. So effectively what you're confirming is if -- if, for example, one of the employee groups, like the Society, is taking significantly below inflation increases in base salary, in terms of how that's reflected in the compensation dollar that's derived for the pension, that will not be -- that really won't come into play.

MR. McDONELL: Not for the pension, but of course it would have an impact on the base rates.

MR. DUMKA: Going forward -- or in '16. So one of our -- well, we'll get to that in a second. One of our questions was, adjust the results to reflect that in fact one of your employee groups are taking significantly below inflation increases. So for example, in 2017 and '18 the increase that the Society has had in base wages is a half a percent, whereas generally inflation is recognized being in about the 2 percent range. It's actually been a little bit higher towards the end of '17, et cetera. So basically where we're coming from is, okay, everything else held equal, the Society has been paid less than inflation, or they -- I should say the increase has been less than inflation, so that intuitively would lead you to think that where the Society stands when the benchmarking would be in a more favourable position for Hydro One. Do you see where I'm coming from?

MR. McDONELL: I think I do, but I think the answer is two parts. So it's not going to have an impact on the pension value --

MR. DUMKA: No, no, yeah.

MR. McDONELL: -- but where it would have an impact is the positioning on the base rate compared to the peer groups.

MR. DUMKA: Right.

MR. McDONELL: As a matter of fact, when we submitted the data for the employees in the classifications that our Society represented, it would have been reflective of, as you say, that lower base wage adjustment.

MR. DUMKA: Okay. So this is actually what we asked in part D, which is, basically, we asked you to -- or Mercer to adjust the study results, taking into account that up to and including 2018 Society base wage increases are significantly below inflation. And the reply we got was "only Mercer can do these calculations." Understood.

"The result would be misleading, since other compensation elements that make up total compensation would also have to be factored into such an analysis."

So we're asking that that analysis be done so we can see where the Society stands in terms of the benchmarking and where Hydro One in total stands, taking this into account in 2018 --

MR. McDONELL: No, I understood the question, and -- so you're looking for running the study assuming one thing is held constant for 2018, and the response back from Mercer is that -- it's sort of misleading, because you're not looking at the other variables that should also be potentially adjusted in 2018 as well --

MR. DUMKA: Sure. So there --

MR. McDONELL: -- so that's why we're resistant to, I guess, also incur the costs of having Mercer rerun a study for us just on an element that they don't believe is going to be particularly helpful.

MR. DUMKA: What are the other variables?

MR. McDONELL: Well, could be changes in benefits, pension changes, whatever else could change in the peer groups in 2018 that wasn't there when we did the study in 2016.

MR. DUMKA: And that's what we're looking for, in terms of what the contribution of this is. And we asked you about the pension costs, and you said -- Mercer said, can't do that, can't take that into account, the change in the pension contribution costs, because they don't tie into how we do the valuation.

So the difficulty that I have is we're looking at this. The client I have has given blood in terms of reductions in overall compensation. And we reran this study for '17 -- and we'll get to that a little later on in another question I have. If we rerun the study in '17, Hydro One and the Society will likely be in a better position versus market median, and that will also be the case in '18.

MR. McDONELL: Well, I certainly want to be helpful. I'm not sure of the rules of this game entirely. I mean, maybe it's something I can take under advisement, because I simply don't know how much it would cost for Mercer to do that rerun. So I think that's sort of a relevant thing for me to find out, because if it's going to be very expensive and -- you know, we only have limited resources, so maybe I can take an undertaking to find out how much it would cost first.

MR. DUMKA: Sure. Okay. I think that's fair, and based on Hydro One's judgment whether the cost is, you know, low enough --

MR. McDONELL: Reasonable.

MR. DUMKA: -- to justify running it, that's fair.

MR. SIDLOFSKY: That's J1.10, excuse me, JT1.10.

UNDERTAKING NO. JT1.10: TO ADVISE THE COST OF RE-RUNNING THE MERCER STUDY AND WHETHER IT'S LOW ENOUGH TO PROCEED.

MR. DUMKA: Now, one other question that I had, and you've already effectively confirmed this, which is part C, where we asked about increasing employee pension plan contributions. So, you know, again this is where my client has given blood to the bank and in fact has increased its pension contribution.

So basically, with the methodology that Mercer uses, you wouldn't -- they wouldn't be able to model something like this.

MR. McDONELL: That's correct.

MR. DUMKA: My next question is -- related to that is, what sort of assumptions does Mercer use in terms of employee pension contributions changing?

MR. NETTLETON: Well, Mr. -- sorry to interrupt. The question that you're asking is directed really towards

Mercer and the assumptions that Mercer is using. And Mr. McDonell cannot answer those questions. I don't think it's a fair question to ask him at this time. And he has provided the answer that clarifies your question of part C and confirmed that they haven't done the model that you requested. I don't know what more we can do.

MR. DUMKA: Well, would it be possible to get an undertaking from Mercer, just simply asking them -- or perhaps Mr. McDonell can answer this question. I guess you're -- if we're frozen in time and it's 2016 and Mercer is going through, doing their study, and they're doing the valuation, what do they do for employee pension contributions? Do you provide them with the information, saying in 2016 this is the profile? And we know from other IRs that you've answered that, you know, the contribution levels are quite different from PWU to Society to MCP.

So is that type of information given to them in terms of --

MR. McDONELL: Yes, we do provide the employee contribution rates, but I was also thinking that we've mentioned in a variety of the IR responses that we will be having a new Mercer study that we will be filing for the upcoming transmission filing, but we anticipate to have that shortly, I would say by the end of the month, which we would plan to be filing under this application. So perhaps upon seeing those results some of your questions may be resolved.

MR. DUMKA: Okay. It would be fair to say -- or I'm

asking you, would it be fair to say, going back to employee contributions, a particular profile of ratios is provided, and that's what Mercer uses to come up with the valuation of the pension? Is that a --
MR. McDONELL: Yes, we would have given the employee contributions --
MR. DUMKA: Yeah.
MR. MCDONNELL: -- for all our groups; that's right.
MR. DUMKA: So effectively Mercer would have assumed whatever the contribution ratio is in '16 is constant all the way through in terms of how they do it.
MR. McDONELL: I'm not sure what you mean by "all the way through." So we had a study done in 2016. So the study results would have been based upon the inputs that we would have provided Mercer.
MR. DUMKA: Right. Basically, all I'm saying is they were assuming the same employee pension contribution in how they valued the pension benefit?
MR. McDONELL: That's correct.
MR. DUMKA: Okay, that's what I wanted to know, thank you. Actually, I think you've touched on this, but seeing as how it's there, it's SEC 84 and basically all that was -- you've already answered that question, if I've got this right. Give me a second.
Yes, on the second page of SEC-84, that's where you say you're going to provide the new Mercer study. So again that's the end of this month.
MR. McDONELL: That's correct.

MR. DUMKA: Fair enough. I forgot to ask when we got in the big discussion on the previous IR. Is there going to be a Mercer witness at the distribution oral hearing?

MR. NETTLETON: I think that is dependent on the level of questioning that we receive and the interests of the parties. As you know, the Mercer -- we did have witnesses in the last transmission case, and Mercer was available. But I think that the scheduling of witnesses and the structuring of the panels are matters that we have not decided yet.

MR. DUMKA: I see. So that one is up in the air. Fair enough. Maybe this is preliminary matter, but when is the transmission application that's going to contain the Mercer study? What's the ballpark for that evidence to be filed?

MR. McDONELL: I understand it's going to be filed in late April, April 27th.

MR. DUMKA: Okay, thank you. If we can go to Society number 11, please. We asked a couple of simple questions here in terms of the market median level. And in part B, the last sentence:

> "In aggregate, compensation studies such as this study, Mercer does consider plus or minus 5 percent from market median as market competitive."

What does market competitive mean?

MR. McDONELL: Sure. Maybe I can back up. We talk a lot about market median or P50 that's a single data point.

Compensation consultants will talk about a range of market competitiveness, which is essentially what is a reasonable amount for an employer to attract and retain talent in the labour market that they have to resource from. So if you're plus or minus 5 percent, from that point of view it's a reasonable amount of compensation.

MR. DUMKA: So this is further to part A, the question which is the market median simple point or is it a range. And it sounds like using the terminology market competitive infers that there is a range on that hard point estimate.

MR. McDONELL: No, I don't think so. I don't think that's what the answer is saying either. There is a -- there is only one single point for market median. There is not a range. The range is defined as what is competitive.

MR. DUMKA: My last question on this is what is the certainty on that market median? When we look at statistical analyses, which is what this is essentially, what's the certainty on that point estimate? Is it plus or minus 5 percent, plus or minus 3 percent? What's the statistical certainty on that estimate?

MR. McDONELL: I wouldn't have that information, Mr. Dumka.

MR. DUMKA: Would it be possible to get an undertaking from Mercer to provide that?

MR. McDONELL: I believe so.

MR. DUMKA: Please, if you can.

MR. SIDLOFSKY: That's JT1.11.

UNDERTAKING NO. JT1.11: TO PROVIDE THE STATISTICAL

CERTAINTY LEVEL ON THE MARKET MEDIAN ESTIMATE

MR. DUMKA: Thank you. If we can flip up Society 14, please, and this is -- I'm just looking at part B, where we asked does the data provided in part A above change Hydro One's pension contribution costs in 2017 and '18. And if so, please revise.

There was no -- in your reply, you gave us information. There was no confirmation on that point because I recall you didn't have -- in the evidence, there was no pension contribution data for '17 and '18 for MCP. So we would like an answer to that question.

Now that you do have pension contribution levels in those two years, does that impact the overall pension contribution level?

MR. McDONELL: I think I need some clarification. You're asking does it impact the cost to Hydro One?

MR. DUMKA: Yes. Because before you didn't have any estimate for those two years. I would assume what you did is you straight lined the '16 contribution level and now you have lower contribution levels for '17 and '18.

So my ask is because you in fact have lower contribution -- sorry, higher employee contribution levels in '17 and '18, if before you used a straight line of the '16 level which was a lower employee pension contribution level, does this information have any impact on the annual pension contribution cost for '17 and '18?

MR. CHHELAVDA: Perhaps I can help out there. Just so I'm clear on the question you're asking, if increases in

MCP contribution levels will have an impact on how much the employer will have to contribute; is that the question?

MR. DUMKA: Effectively that's it, because if your MCP employees are making a larger contribution, the cost that the employer incurs is going to go down. That's what my question was there.

MR. CHHELAVDA: To answer your question, yes, you are correct. If MCP staff contribute more, then the employer's portion will be reduced.

MR. DUMKA: Okay. Then I have an undertaking. I would like to know what the ballpark is of the higher MCP employee contributions are in '17 and '18.

If it's something that's immaterial -- you know, I realize I'm pulling numbers out of the air. If it's one million dollars for Hydro One Networks TX and DX, once you do the allocation to OM&A and capital, if we're just talking about a couple of hundred thousand dollars for distribution and OM&A.

So what I'm asking is what's the overall impact if it's a material amount, then if you can give us that split of this impact between those four pots in Hydro One Networks.

MR. CHHELAVDA: I think that analysis can be done, but I would caution that it may not be meaningful because over the passage of time, as your pension plan -- it depends on your pension plan's performance. If your plan performs well, then overall costs will go down. That perhaps needs to be factored in as well.

So by doing the analysis you're requesting, it may give an incomplete picture.

MR. DUMKA: Maybe I haven't been clear in what I am asking for. So we have higher MCP employee pension contributions in 2017 and '18. I'm just asking -- I'm not looking at the pension valuation or whatever. I'm simply asking, okay, MCP employees are paying more for their pension benefit. What is that dollar amount in '17 and '18.

MR. CHHELAVDA: I believe we can provide that information.

MR. DUMKA: Okay. And if it's material -- I'm just pulling a million dollars out of the air; I haven't thought about it. If it's a fairly immaterial amount, like under a million dollars, just the number is fine. But if it's more than that, if we can get the impact on distribution OM&A, distribution capex, transmission OM&A and transmission capex, just the standard split that you do on the pension benefit costs.

MR. JODOIN: That's not a problem. Either way, we'll do the full analysis.

MR. DUMKA: That's great, thanks.

MR. SIDLOFSKY: That will be interrogatory JT1.12. I'm wondering if there is a way to describe that a little more concisely for the reporter.

MR. DUMKA: Other than going back --

MR. SIDLOFSKY: I'm sorry, Undertaking JT1.12.

MR. DUMKA: Okay. I'm trying to think of a simple way of putting it. The employee pension contributions have increased in 2017 and 2018, and Hydro One will estimate the impact on total pension contributions in those two years for those higher employee contributions. Is that any clearer?

MR. SIDLOFSKY: It seemed clearer to me. I think we can go with that.

MR. JODOIN: That's consistent with our understanding as well.

UNDERTAKING NO. JT1.12: THE EMPLOYEE PENSION CONTRIBUTIONS HAVE INCREASED IN 2017 AND 2018, AND HYDRO ONE WILL ESTIMATE THE IMPACT ON TOTAL PENSION CONTRIBUTIONS IN THOSE TWO YEARS FOR THOSE HIGHER EMPLOYEE CONTRIBUTIONS.

MR. DUMKA: Okay. Thank you.

One last one, and hopefully this is a simple confirmation. This is Society number 15. And we asked for an update of an FTE table from the last transmission proceeding. And if I can just get you to look at question A, part 2 of that. And the question reads: Please confirm or update as required the actuals previously provided for 2013 to 2015. Those figures were provided, and they're unchanged, so I just want simple confirmation that, yes, those numbers have not changed from when they were provided in the transmission evidence in the last proceeding.

MR. McDONELL: Yes, I can agree with that.

MR. DUMKA: Okay. Thank you. That's it. Those are my questions.

MR. SIDLOFSKY: Thank you.

We're going to move on to Mr. Buonaguro with Balsam Lake Coalition.

EXAMINATION BY MR. BUONAGURO:

MR. BUONAGURO: Thank you. Good afternoon, panel. I won't reintroduce myself. I'm going to start with Exhibit I, tab 1, Schedule BLC-1, which the full cite in the vernacular, BLC1. And this interrogatory we asked a few questions about the Board's decision to eliminate the seasonal rate class. Part A asked about steps that Hydro One has taken pursuant to that decision, and the response provides all the steps that Hydro One has taken, culminating in a filing on December 1st, 2016. And then Part B asks about any further information that Hydro One has from the Board with respect to the continuation of the EB-2016-0315 proceeding. And the answer referred to an attachment to Exhibit I16-CCC-17.

And looking at that, it looks like an e-mail exchange between Hydro One and Board Staff, talking about, if I can summarize fairly, talking about elements pertaining to the notice of that proceeding or what that notice in the proceeding could look like; is that fair?

MR. JODOIN: Sorry, I think the third panel Mr. D'Andrea is actually going to be sitting on. I think this question might better be suited for that panel.

MR. BUONAGURO: That's fair enough. I wasn't actually going to ask about the content of the --

MR. JODOIN: Okay.

MR. BUONAGURO: -- e-mail, it's more about the timing of it. You can see that it's June 21st, 2017.

Based on the question that was asked and the answer I got which referred me to this e-mail, the implication was that since this email exchange with Board Staff Hydro One has had no contact with the Board with respect to that proceeding or any information about that proceeding in the next steps in that proceeding. Can you answer that question? Is that what I'm to understand?

MR. JODOIN: I still think it's worthwhile to wait for the third panel.

MR. BUONAGURO: Fair enough. Okay. Thanks.

I'm wondering how much of that I'm going to get. Most of all of my questions are in the topic areas assigned to this panel, but again, obviously if I should go somewhere else let me know, specifically to another panel, as opposed to some other else/place.

[Laughter]

I'm going to look at BLC -- well, we asked it in BLC number 2. We referred to I4-PWU-4, which I think a lot of people referred to as updates to the bill impacts that would incorporate the impacts of the Fair Hydro Plan. So if we can full up I4-PWU-4. I just have a few questions about this. I'm looking at table 1, which is attachment 1. Just the first page -- I'm focusing on the 2017-2018 corner of it, so you can --

MR. JODOIN: I -- sorry, I apologize. I don't mean to interrupt, but panel 3.

MR. BUONAGURO: All right. This is going quickly.

MR. JODOIN: I think maybe it's easier if I just clarify in general. So the third panel, questions like that, detail, rate classes, related to any sort of impact to the Fair Hydro would be directed towards panel 3. Anything to do towards revenue requirement and applying it down to rate classes would be panel 3. Load forecast issues and items like that, it's all really panel 3.

MR. BUONAGURO: Right. So any issues about detailed bill impacts are panel 3?

MR. JODOIN: Panel 3. I know Panel 3 is listening right now and they're...

[Laughter]

MR. BUONAGURO: Okay. So I'm going to soldier on, because --

MR. JODOIN: Sure.

MR. BUONAGURO: -- all of these are -- were listed as general questions, so hold on a second.

MR. JODOIN: I see. And I think there just might be some overlap in terms of category between some of the panels, which is why this may occur.

MR. BUONAGURO: Fair enough.

So I'm going to go to BLC number -- sorry. BLC number 4, so Exhibit 5, tab 5, Schedule BLC-4, which, as I understand it, does not contain any detailed bill impact information, but you're smiling at me like I'm going to do some -- to it...

And what I'm specifically interested in is talking about part D -- no, sorry. Uh, no. Part B. Please answer to my question, which asked about any documentation submitted by Hydro One to the provincial government with respect to the distribution rate protection. And the answer was an attachment at -- described in part B as a white paper on addressing affordability. Can I talk to this panel about that?

MR. D'ANDREA: This, still panel 3 issue. This paper here was the precursor to the Fair Hydro Plan.

MR. BUONAGURO: Right.

MR. D'ANDREA: But --

MR. BUONAGURO: Yeah, I'm going to ask questions about the context of how this came into being, so if you're telling me panel 3 is -- are the people who will know that --

MR. NETTLETON: Sorry, I think I think we're getting our panel numbers mixed up. Panel 2 will be the one that's dealing with customer issues --

MR. BUONAGURO: Okay.

MR. NETTLETON: -- and so I think that this report is going to be best addressed by --

MR. BUONAGURO: Panel 2?

MR. NETTLETON: -- by that panel.

MR. BUONAGURO: All right. As long as it's not panel minus 1 and I missed that.

MR. NETTLETON: We'll tell you that tomorrow.

[Laughter]

MR. BUONAGURO: Okay. All right. You're making this

-- today easy on me.

I'm pretty sure this one is yours. I shouldn't have said that.

[Laughter]

Okay. So this has to do with deferral and variance accounts, and I'm not sure, but I may have been one of the few people that actually asked questions about deferral and variance accounts. I -- Exhibit I, tab 57, Schedule BLC-8. So I asked this question about the interaction between how the distribution rate protection plan works and the clearance of deferral and variance accounts which track variances in base rates, and I wanted to have something more to the answer than what I got here.

I basically asked the question, given that credits and debits tracked in these variance accounts when it comes to customers in R1 and R2 will relate to amounts they either didn't pay or shouldn't have paid because they should have gotten protection, are you still going to -- how are you going to deal with that issue. And the answer I got was essentially money goes into the deferral variance accounts, there's credits and debits and we're going to clear them as normal. First of all, do you see the issue I was trying to raise and if so, can you comment on it? Is it an issue in Hydro One's mind and if not, why not?

MR. CHHELAVDA: I think this is a question best answered by panel 3 as well.

MR. BUONAGURO: Really, deferral and variance accounts?

MR. CHHELAVDA: So the specifics of your question, yes, because it's talking about charges to R1 and R2 customers, and panel 3 can best answer that question. But if you're asking about our response and how we're going to clear the variance accounts, I can speak to that at a general level.

MR. BUONAGURO: It's more a philosophical question which is this. Distribution rate protection basically freezes R1 and R2 distribution obligation or distribution payments at a certain cap, right? Something like 38 dollars per month?

MR. CHHELAVDA: Okay. Well --

MR. BUONAGURO: Don't take my word for it.

MR. CHHELAVDA: I'm familiar with that, yes.

MR. BUONAGURO: The rest of the rate obligation that's allocated to those customer classes is picked up by distribution rate protection, which is paid to Hydro One by the provincial government, right?

MR. CHHELAVDA: Right.

MR. BUONAGURO: At the same time, you have a series of deferral and variance accounts which track amounts relative to your approved revenue requirement, and there are examples where sometimes what you put into rates isn't enough and there's examples what you put into rates is too much, right? And they get tracked in different variance accounts where -- or a variance account is approved, right?

MR. CHHELAVDA: Correct.

MR. BUONAGURO: My question was about in their examples -- I can pull up examples, not for this year, but previous years for example, I think the pension variance account recorded tens of millions of dollars in variation between what was included in rates and what actually happened and you're collecting that money eventually, correct?

MR. CHHELAVDA: Collecting and refunding, yes.

MR. BUONAGURO: Yes. So for example, and I'm going to pick a number -- I saw there was one year where the pension variance account recorded had an amount at the end of the year of something like 60 million dollars, okay? And let's say the company in the year going forward had a similar amount accruing in that account and you were going to try and collect that from ratepayers, including R1 and R2 ratepayers. The R1 and R2 ratepayers, had rates been set to recover the proper amount the amount that actually came into fruition, would have received protection, distribution rate protection for that amount, right?

MR. CHHELAVDA: I understand what you're saying, yes.

MR. BUONAGURO: But because it wasn't captured in base rates and happened to be captured in the variance account, they're going to be paying money they could have been protected from. And on the flip side, if you're trying to give back money that was over collected in rates, you're going to be giving back money that customers in R1 and R2 never paid in the first place, because those amounts would have been paid for by the DRP.

So I see that as somewhat of an issue. In certain years or under certain variance accounts, it might be immaterial. But in other years, it might be a material amount.

I'm trying to understand if the companies recognize this as an issue and if so, what their position is on it, like how it should be handled or not.

MR. CHHELAVDA: Again, given this is talking about rates in specific rate classes, I think panel 3, Mr. Andre, will be best suited to answer this question.

MR. BUONAGURO: This answer was under your rubric, no? I see Henry's name on there.

MR. CHHELAVDA: Yes.

MR. BUONAGURO: But the mechanics, you can tell me the mechanicals of the clearance, but this whole philosophical question you want him to answer, essentially?

MR. CHHELAVDA: Correct.

MR. BUONAGURO: Given what's happened here, I'm going to take a minute to look through the rest of my questions to make sure there isn't anything that I think is for this panel. I don't think it's my fault, by the way. But let me take a peak.

I think all my questions are redirected, so those are my questions. Thank you.

MR. SIDLOFSKY: Thanks, Mr. Buonaguro. Mr. Brett for BOMA.

EXAMINATION BY MR. BRETT:

MR. BRETT: Good afternoon, panel. Could I start by asking you to turn up BOMA 36, BOMA 156 A, attachment 5, please. So that's 36 BOMA 156A, attachment 5.

Just to help you that's a Moody's Investor Services Rate Report, dated February 12, 2018. It's up on the screen now.

My understanding is that of the Hydro One group of companies, Hydro One Inc. is the publicly traded company and it is the one that has its debentures and debt rated by the rating services; correct?

MR. CHHELAVDA: Hydro One Limited is a publicly traded company, and Hydro One Inc. has its debentures publicly issued.

MR. BRETT: Right, and Hydro One Inc. is the company that Moody's is actually assessing in this particular report, correct?

MR. CHHELAVDA: That is correct.

MR. BRETT: Of course, Hydro One Inc. is a wholly owned subsidiary of Hydro One Limited, right?

MR. CHHELAVDA: Correct.

MR. BRETT: The province at the moment, I believe, owns something in the order of 47 percent of Hydro One Limited. Does that sound right, or in the ballpark?

MR. CHHELAVDA: In the ballpark, yes, correct.

MR. BRETT: Now if you look at page one of the Moody's report, the paragraphs just above the graph there says, "On July 19th" -- I'm going to read this brief paragraph.

> "2017, HONI's parent, Hydro One Limited, announced that it plans to acquire Avista Corp., a U.S.-based electric and gas utility company.

"HONI's negative outlook reflects, in our view..."

And I should say parenthetically in this report, HONI changed -- Moody changed its outlook for HONI Inc. from stable to negative.

Carrying on with that sentence:

"HONI's negative outlook reflects, in our view, that the probability of extraordinary support from the province will be reduced as a result of the acquisition."

Do you see that?

MR. CHHELAVDA: I do.

MR. BRETT: What is your view, your understanding of what Moody's means by extraordinary support from the province will be reduced? Do you have a view on that? What does that mean to you?

MR. CHHELAVDA: You're asking me to speculate, which I'm not comfortable doing. But, I mean, in my mind it's pretty clear what it says here, that post IPO -- and if you've gone back to some of the previous briefings by Moody's and others, it did say post-IPO that the province's support of Hydro One would be reduced.

So it's kind of consistent with all the rating agency's documents put forth post IPO, so post November 2015.

MR. BRETT: So really it's sort of a further elaboration of that view? What they're saying here is, as I read it -- and I want to make sure I'm reading this the same way you're reading it, is that the fact that Hydro One

Limited has acquired a large utility outside of Ontario, Avista, effectively means that the Government of Ontario would have less incentive to support HONI Inc. if that support ever became necessary. Is that fair?

MR. CHHELAVDA: This is Moody's. This is what Moody's opinion is.

MR. BRETT: It's their opinion, yes; all right. So you're really saying that's their opinion. Does Hydro One agree with that assessment?

MR. NETTLETON: Mr. Brett, this proceeding is about clarifying interrogatory responses, and --

MR. BRETT: I've given you an interrogatory.

MR. NETTLETON: And you've given us a third-party report, and you're asking a witness about the view that the author of this report is taking. I don't think it's helpful or fair to ask the witness to speculate on what is or is not in the mind of the author when they've created this statement. So I'm asking the witness not to answer this question.

MR. BRETT: All right. Let me move to my next question, then. Would you agree with me generally that the change in outlook from stable to negative is, generally speaking, is a step toward a re-rating of the credit of the company involved? In other words, it doesn't constitute a re-rating, but it's a step in that direction in general? From your experience as a financial executive?

MR. CHHELAVDA: It could be a step in that direction, but again, it's just one element, right?

MR. BRETT: Now, if you look down on to page 2 of that same document, they're saying "the proposed acquisition of Avista" -- let me just see if I've got the -- I want to make sure we've got this right here. Yeah, if you look on page 2, under the little heading "factors that could lead to a downgrade" -- do you see that?

MR. CHHELAVDA: I do.

MR. BRETT: In that section following that they say:

"The proposed acquisition of Avista could lead to a downgrade of HONI. A downgrade of HONI Inc.'s baseline credit assessment could lead to a downgrade of the unsecured debt..."

That should say "rating":

"...a senior unsecured rating so long as Moody's opinion of likely support from the province does not increase. This could result from a deterioration in regulatory outcomes or financial metrics."

And so on.

So that as I read this, Moody's is -- they have said -- they're saying absent an increase in government support it's possible that the proposed acquisition of Avista could lead to a downgrade of HONI Inc. My question to you is not about that, which is Moody's opinion, but this. If HONI Inc.'s debentures were downgraded from its current A3, I believe, then that debt would become more expensive; is that right? New debt that they issue would have to bear a higher coupon?

MR. NETTLETON: So that I understand the question, Mr. Brett, you're asking generally if there is a change and a reduction in credit grade would the witnesses expect that to result in a higher cost of debt?

MR. BRETT: Yes, I think that's fair.

MR. CHHELAVDA: So that would be a fair assessment.

MR. BRETT: All right. And to your knowledge does either Networks or Hydro One Limited or HONI Inc. have any guarantee of any sort from the province that if that were to happen in your case, for whatever reason, that the province would effectively hold the ratepayers -- would hold the ratepayers of HONI Inc. harmless? Is that -- do you have any knowledge of that, whether anything of that sort exists? I take it the answer is no, but...

MR. D'ANDREA: The province wouldn't be involved in that type of decision, so it would be a decision of Hydro One when we file a rate application, and our view is that ratepayers -- distribution ratepayers in this case should not be harmed by anything that happens as a result of the Avista transaction.

MR. BRETT: Sorry, I didn't quite get your preface there. Are you saying there is a -- I understand what you're saying, they should not be harmed by anything that happens in connection with the Avista transaction, but who says that? Where is that coming from?

MR. D'ANDREA: It's the affiliate relationship column, where we keep unregulated and regulated businesses separately. So we would ensure when we file our distribution rate application or update it, if there happens to be an incremental cost to debt associated with Avista, that that wouldn't be passed on to the regulator ratepayers.

MR. BRETT: All right. So you would have some mechanism where you would hive that off and not allow the new debt issued by HONI to increase in price as a result of anything that happened as a result of the acquisition of Avista. That's what you're telling me?

MR. D'ANDREA: Correct.

MR. BRETT: And just as an aside -- and I believe this is BOMA 159-2. I'm not sure you need to turn this up, but this is a copy of your prospectus, the financing -- the prospectus for the financing of the Avista acquisition. And the question I wanted to confirm with you is that the securities issued for the Avista acquisition are securities of Hydro One Limited.

MR. CHHELAVDA: That is correct.

MR. BRETT: As distinct from Hydro One Inc.

MR. CHHELAVDA: Correct.

MR. BRETT: And it is Hydro One Inc. -- this is a further question of clarification. Hydro One Inc. is the -- essentially the holder of the debt of Hydro One Networks? In other words, the debt is actually the debt of Hydro One Inc., even though the cash flow to support the debt comes from Hydro One Networks; correct?

MR. CHHELAVDA: Correct.

MR. BRETT: Now, if you could look just briefly at the same -- at 156-6A. It's the same IR. 36-BOMA-156. But the attachment is 6A. Okay. Yeah, that's it. This is S&P's -- an S&P report, and I believe it should be dated, I think it's 24th of January, 2018, and the say there that:

> "We are revising our outlook on Hydro One Limited and its subsidiary Hydro One Inc. to negative from stable. The outlook reflects the shift in HONI Limited's business strategy, as well as the slightly weakened business risk from the acquisition."

So S&P, Standard & Poor, is essentially doing the same -- making the same downgrade as Moody's has made, correct?

MR. CHHELAVDA: So they haven't made a downgrade to the rating, but they have --

MR. BRETT: Or the outlook --

MR. CHHELAVDA: Outlook, correct.

MR. BRETT: -- sorry, yeah.

MR. NETTLETON: And to be clear, Mr. Brett, it's commentary on outlook. I mean, I --

MR. BRETT: Commentary -- it's the outlook that's been revised, right? It's not the rate itself. I take your witness's point.

MR. NETTLETON: Right. My only supplement to that is just that Moody's and Standard & Poor's are providing different comments. They're different organizations. I think we just want to be clear that the common theme is that they're both providing commentary on an outlook, and that outlook is negative.

MR. BRETT: Well, that's fair enough.

Now, the -- let me -- I have a general question, and this -- it's along the same lines, but it's a bit more general, and it's this: In the event that HONI Limited were to get into serious financial difficulty or, in an extreme case, bankruptcy, can you assure ratepayers of HONI Inc. that HONI Inc. and HONI Networks will be shielded from any of the financial impacts of that?

MR. NETTLETON: Mr. Brett, again the purpose of this proceeding is to provide clarifications on interrogatory responses that Hydro One has provided. It is not for the purpose of cross-examination, and the question you're asking to these witnesses is probably best asked to a policy panel of senior management of Hydro One.

MR. BRETT: You don't have one.

MR. NETTLETON: No, we don't. I'm sorry, we certainly will have a policy panel when this proceeding, this application proceeds to oral hearing. My only point is that questions like the one you just have asked is probably best saved for that proceeding, and not a technical conference that is intended to help provide clarity to the written responses that Hydro One has written in its IRs, not Moody's reports, not Standard & Poor's, and not commentary on whether some macro level change like bankruptcy would impact ratepayers.

MR. BRETT: All right. Well, I had a specific question on the capital markets aspect of this, or the cost of capital aspects of this. And Mr. Chhelavda, perhaps you can answer this. Is it your -- can you confirm for me whether or not the convertible debentures Hydro One Limited issued as part of its financing package for the acquisition have been converted to equity? Do you know?

MR. CHHELAVDA: They have not.

MR. BRETT: They have not; okay. Let me move on to another topic. This has to do with the nature of the application, the custom application. Just by way of context, my understanding -- and just tell me if I'm correct on this -- is that your application is based on a custom incentive rate setting approach for five years, right?

MR. D'ANDREA: That's correct.

MR. BRETT: And the first year, though, of the five years is being done on a cost of service basis, right?

MR. D'ANDREA: That's correct.

MR. BRETT: And the following four years are being done using a revenue cap index, right?

MR. D'ANDREA: Correct.

MR. BRETT: Now, there are different interrogatories here -- let me just carry on for a moment. My understanding of the -- you referred different times in your evidence to the rate handbook, the OEB's rate handbook. My understanding is that the rate handbook does not contain a revenue cap index as an option for use by utilities. Is that your understanding as well, there is no --

MR. D'ANDREA: No, that's not my understanding.

Revenue cap is allowed.

MR. BRETT: Sorry?

MR. D'ANDREA: Revenue cap is allowed.

MR. BRETT: My understanding -- and you're getting that from the October 2016 rate handbook?

MR. D'ANDREA: I don't have it in front of me.

MR. BRETT: I can give it to you, if you like. But as I read it, and I'm curious about this; this is an information question.

The existing rate handbook -- I'll maybe ask you to take this subject to check, or if you like, I can show you the relevant pages. But it says that you have three options. You can do a price cap index, you can do a custom IR, or you can do an annual IR index.

It doesn't say anything about a revenue cap index.

MR. D'ANDREA: That is the custom IR that we've applied in this case. One of the options you just cited is one of the options that we've taken.

MR. BRETT: Custom IR?

MR. D'ANDREA: Correct.

MR. BRETT: But you've added to the custom IR a revenue requirement, a revenue index feature. Would you agree with me that a custom IR approach, which is certainly -- does not typically include a revenue requirement, a revenue index feature; it's just a five-year custom IR.

MR. D'ANDREA: But you need a basis do a custom IR and that's opposed to a price cap. This is a revenue cap model, which is permissible under the custom IR.

MR. BRETT: I guess we'll have to differ about that. But you would agree with me that the first year of this custom IR is a cost of service proceeding essentially, a cost of service -- the application is prepared on cost of service principals?

MR. D'ANDREA: For the first year.

MR. BRETT: For the first year. Cost of service typically -- let me go back half a step. The cost of service proceeding, speaking generally -- in a cost of service proceeding, speaking generally, is it not the utility that takes the volume risk rather than the customer?

MR. D'ANDREA: In a cost of service?

MR. BRETT: Yes.

MR. D'ANDREA: You're talking about the load factor?

MR. BRETT: I'm talking about a one-year cost of service. You forecast what the load will be as part of that operation and if it turns out that it's -- it turns out that it's less than the -- you don't change your rates to charge the customer more. You've already set the rate for that one year.

MR. D'ANDREA: Correct. Correct.

MR. BRETT: So if the first year, so that the -- my understanding also is, correct me if I haven't got this right, but the way in which your revenue requirement -- sorry, your revenue index works, this was set out on the -- well, it's set out in different places. But what happens under your revenue requirement in your first year is that you arrive at a rate, a customer rate based on your revenue requirement of a certain amount for 2018 over 2017. And then you increase that first approximation of a rate by a factor that takes into account the volumes that are forecast to go down in 2018 relative to 2017, right?

So you go from -- if you look at, for example, the easiest place to find it is in the covering letter to your December 6th update. You state in there, in the covering letter as you may recall, that you start off with something like a 3.1 increase in 2018. When you apply the revenue cap index, that increase escalates to 6.1, right?

MR. D'ANDREA: No. 2018 is a full cost of service.

MR. BRETT: Sorry, I mean 2019.

MR. D'ANDREA: 2019, 6.1 is the factor.

MR. NETTLETON: Mr. Brett, I've let this conversation go on and I'm mindful of time. Your estimate for this panel was thirty minutes, which has now been exceeded.

MR. BRETT: My estimate was not thirty minutes. My estimate was much larger than that, something like seventy minutes. I'm trying to do it as quickly as I can and I'd rather you not interrupt me, because that will allow me to finish faster. And we will both be --

MR. NETTLETON: I would ask, sir, that you please provide questions that relate to clarifications of interrogatory responses and not deal with general matters like the Board's custom IR approaches.

MR. BRETT: Well, the question is the custom IR issue is a part of the -- is an issue that needs to be dealt with in this -- by this panel, as I read it.

MR. NETTLETON: Can you provide a clarifying question relating to an interrogatory?

MR. BRETT: Well, let's look at interrogatory CCC number 18. I don't have that. It has to do with -- it has to do with the fact that your answer to it -- I'll give you your answer, and perhaps we can figure it out from there.

You say in the answer to CCC 18 that Hydro One says it based its revenue cap index on the methodology used by Toronto Hydro in EB-2014-0116, okay? That's your -- I gather was your -- that was your explanation as to --

MR. NETTLETON: Sorry, I think we must have the --

MR. BRETT: -- one of the reason -- do you have that?

MR. D'ANDREA: We have the wrong reference, I think.

MR. BRETT: Sorry?

MR. NETTLETON: If you look at the chart --

MR. D'ANDREA: Can you just check your reference?

MR. NETTLETON: If you look at your screen, Mr. Brett, we have the IR that you've just referred to on the screen. And I don't think the response is consistent with your understanding of --

MR. BRETT: All right. I may have copied this down. Just a minute... It's one of the CCC interrogatories, and...

MR. NETTLETON: There are 75 of them.

MR. BRETT: Yeah, well --

MS. GIRVAN: It's actually CCC 10. I think is that what you're referring to?

MR. BRETT: Sorry, you're right. CCC 10. So it's 10 -- is that 10 CCC 18? Or CCC 10? Hmm? Issue 8. Okay. It's 8-CCC-10, I believe.

MR. NETTLETON: It's actually --

MS. GIRVAN: Seven.

MR. NETTLETON: -- Exhibit I7-CCC-10.

MR. BRETT: All right. So we have that. Now, if we look down to -- halfway down there, "Hydro One" -- line 5:

"Hydro One based its RCI on the methodology approved by the OEB for Toronto Hydroelectric System Limited in EB-2014-0016."

Stopping it there for a moment, you -- are you -- do you understand or are you aware that that decision -- in that decision Toronto Hydro used a price cap, not a revenue cap?

MR. D'ANDREA: Yes.

MR. BRETT: All right. And if we go on to the next sentence, so when you say -- before we go on to the next sentence, the methodology approved -- you based your RCI on the methodology approved by the OEB in that case, what are you referring to?

MR. D'ANDREA: I'm sorry, I didn't hear the question.

MR. BRETT: Sorry?

MR. D'ANDREA: I didn't hear the question, I'm sorry.

MR. BRETT: Well, you told me that you were aware that in that particular case Toronto Hydro had used a price cap, not a revenue cap.

MR. D'ANDREA: Correct.

MR. BRETT: So my next question is when you say you based your revenue cap on a methodology approved by the OEB for Toronto Hydro System in that case, what part of the methodology were you referring to?

MR. D'ANDREA: Specifically the formula. The formula is very similar.

MR. BRETT: You mean the capital factor formula?

MR. D'ANDREA: No, the entire formula in the price cap formula. They adjust rates every year, whereas in our formula we adjust the revenue requirement... But the formula itself is very similar.

MR. BRETT: All right.

MR. D'ANDREA: So that's what we mean by -- it's consistent. The only difference is we're adjusting revenue requirement instead of rates.

MR. BRETT: The difference -- would you agree with me that one of the other differences is that a price cap that -- when you apply a formula to a price cap you don't compensate the -- the utility is not compensated for a decline in revenues?

MR. D'ANDREA: For a decline in the price cap?

MR. BRETT: Yeah, you're increasing the prices --

MR. D'ANDREA: You're increasing the prices --

MR. BRETT: -- but you're not indexing the revenue, you've indexed the prices.

MR. D'ANDREA: That's correct.

MR. BRETT: Okay. The other thing was, the last sentence there:

"Hydro One reviewed the custom IR mechanisms that were approved by the OEB for other Ontario utilities."

And you determined that the -- it was consistent with the guidance provided in the handbook. And you didn't use external consultants, right? You did it yourself.

MR. D'ANDREA: Correct.

MR. BRETT: Let me just move on a little bit now. I'm looking at the -- looking at the revenue cap for a moment, sort of the anatomy of it, as it were. If you turn up 1 -- sorry, 7 VECC 3. Do you have that? Yes. Okay. 7 VECC 3, as I understand it, is -- asks about the advantages of a revenue cap and -- over a price cap. And you -- you -- just give me a moment here. I want to be as precise as I can here for you. Yes, if you look at that IR, the last paragraph, okay, of the page, just -- I'll read a little bit of it:

"Price cap IR and revenue cap IR are equally capable of continuing the transition to fully fixed residential rates, eliminating the seasonal class, and accommodating changes to the rate design of CNI electricity customers over the customer IR term. Hydro One listed these additional items to provide comfort to the OEB."

And so on.

So you -- if we go then to the response in A, this is where you -- this is where you say the difference lies, right? You say -- under -- immediately under the line response in A you say:

"The proposed revenue cap index is superior to price cap rate-setting for Hydro One's overall circumstances because it allows for better flexibility and provides greater transparency with integrating the acquired utilities into the Hydro One's rate structure."

Now, am I right first of all in suggesting that at this point this is the advantage that you're stating, this is the principal advantage, perhaps the only, but certainly the principal advantage of the revenue cap over the rate cap, right? Of the price cap?

MR. D'ANDREA: That's the principal advantage, is us looking --

MR. BRETT: Yeah.

MR. D'ANDREA: -- at the acquired utilities in 2020.

MR. BRETT: Right. Now, the question -- my question then, the information I would like to elicit here is, can you elaborate on that? Why is it that you say it provides better flexibility and provides greater transparency when integrating the acquired utilities with Hydro One's rate structure? Could you just give us a bit of an explanation as to why that should be the case?

MR. D'ANDREA: When we bring in the acquired utilities in 2020 you're bringing in additional costs and you're bringing additional assets into the rate application, and when you use the revenue-requirement model you have a little bit more transparency because you can see the additions coming in. So under the price cap model you don't have that type of flexibility. So what we wanted to do is, A, be very clear what happens in 2020 when these acquired utilities come in, and then B, to more fairly attribute costs and rates to the entire customer base, not only the acquired utilities but the rest of the distribution customers.

MR. BRETT: So between now and 2020, as I understand it, your acquireds, as you call them, are held separate from the rest of Hydro One. They're not part of the rate base, they're not part of the revenue stream. Hydro One is responsible for running them, but they are their numbers are separate, the rates are separate?

MR. D'ANDREA: Separate from the distribution proper.

MR. BRETT: What you intend to do, I gather, in 2000 and -- well, this would be in your annual filing between 2020 -- for the 2021 year, you intend to effectively integrate the three acquired into --

MR. D'ANDREA: They will be integrated in 2020 and then the revenue cap model would apply in 2021.

MR. BRETT: So January 1, 2020, they will become a part of Hydro One?

MR. D'ANDREA: Correct, for purposes of this application.

MR. BRETT: And you would do -- you would do what? You would add their rate bases into the Hydro One rate base; that's one thing you would do.

MR. D'ANDREA: Correct.

MR. BRETT: You would also add their O&M to the Hydro One O&M?

MR. D'ANDREA: Correct.

MR. BRETT: As I understand it, and I gather we will get more in this in the third panel, you have already created, have you, rate classes for these -- six rate classes for these three acquireds, not to go into effect now, but to go into effect in 2020, is that right?

MR. D'ANDREA: Correct.

MR. BRETT: I'm still at a loss. It seems to me if you're adding -- let me ask you this. Are there any other things you have to add in to Hydro One when you integrate the three acquireds in 2020? You add in the rate base, you add in the O&M, you add in the revenue stream on the other side, and you have a new set of rates that apply -- a new set of Hydro One rates that apply to those particular circumstances, to those particular acquireds, right?

MR. D'ANDREA: Correct.

MR. BRETT: So why is it any easier to take those steps under a revenue cap than it is under a price cap regime? In each case, you're simply doing these -- what to me seem to be on the surface very transparent transactions.

MR. NETTLETON: Mr. Brett, the witness has explained the response. He has indicated to you the benefit, in their view, the greater transparency that arises from the integration.

I don't think you're going to get -- we're getting into a level of cross-examination that, quite frankly, is not what this proceeding is about, sir.

MR. BRETT: You've said that a lot.

MR. NETTLETON: I have and I will continue to say it.

MR. BRETT: We're not getting into a level of cross-examination at all. We're getting into a level of detail.

What I'm asking the witness, your friend, is to actually explain the why, because he has used very general statements. He said it's more transparent, more flexible. What the hell does that mean? Why is it more flexible? Why is it more transparent?

These operations we're talking about are very straightforward; it's addition and subtraction. But you're putting the line out that this is the main reason why, that this is the main advantage of a revenue cap over a price cap.

MR. NETTLETON: We're trying to be helpful, Mr. Brett, and do so in an efficient way. So what I think I'm hearing you say is you're asking the witness could you please explain what you mean by greater transparency. That's the language.

MR. BRETT: Maybe you can do it by undertaking.

MR. NETTLETON: I'm sure he can answer the question.

MR. BRETT: What do you mean by greater transparency? And when you explain that to me, I would ask if you could to relate it to what's actually happening on the ground when you do this transaction in 2020.

MR. NETTLETON: Mr. Brett, again if you look at the next paragraph of that interrogatory response, it goes through exactly, I think, what you're asking. What does greater transparency mean as it relates to the revenue level rather than the price cap level, and there are three bullet points provided there.

MR. BRETT: One of them we've already spoken about. One of them is exactly the same point that I raised, and the one thing I would ask you to perhaps elaborate on is you -- your third point says complete an updated cost allocation study at the time of integration to ensure fairness in the allocation of costs across all rate classes.

Now, that's a little bit off to one side. But are you saying there that in 2020 as part of the integration, you're going do a general cost allocation study for the company?

MR. D'ANDREA: Yes, because they come into our rate portfolio, the common costs of Hydro One get shared against those acquired utilities, and under a price cap model you couldn't do that. To be fair to the other ratepayers in our distribution portfolio, it's only fair we allocate the cost among all our customers.

MS. LEE: If I may, Mr. Brett, I think this is an area worth exploring in more detail with panel 3.

MR. BRETT: Thank you. I'll do that. Thank you very much, those are my questions.

MR. SIDLOFSKY: Thank you, Mr. Brett. It's three o'clock. What I'm hoping -- maybe, Mr. Nettleton, with your indulgence -- is one of my colleagues here on Board

Staff has about 10 or 15 minutes of questions for the panel. I know in the list I made up, Mr. Rubenstein would be next.

I'm wondering if it would be possible to Mr. Rose in, so that he can ask some questions of the panel now. I'm hoping nobody minds.

Mr. Nettleton, you're okay with another ten or fifteen minutes before the break?

MR. NETTLETON: Fire away.

EXAMINATION BY MR. ROZIK:

MR. ROZIK: Thank you, and good afternoon. A couple of quick clarification questions on some of the IRs we had asked. The first one is Exhibit I, tab 3, OEB Staff IR number 12.

In this particular IR, it was asked in the context of the 2015 tax return because that was the only return on record, and specifically it was asking about the application of lost carry forwards and how they were factor into the PILs model that was filed.

The response to it obviously was that the losses directly related to the IPO which for now are out of scope for this proceeding, which is fine. But the 2016 tax return was filed subsequently and is on the record now as well.

When I take a look at schedule 4 of that tax return, which is the loss continuity schedule, just flipping to that right now -- one second. I noticed that added to the pool during 2016 was another 550 million in non-capital loss carry forwards around that. I'm just wondering -- I'm presuming those aren't related to the IPO, so I would like to understand how those would be factored into our test period PILs calculation, if at all -- and if not, how come.

MR. CHHELAVDA: We would have to take an undertaking to provide that response.

MR. SIDLOFSKY: That will be JT1.13.

UNDERTAKING NO. JT1.13: TO EXPLAIN HOW THE NON-CAPITAL LOSS CARRY FORWARDS ARE FACTORED INTO THE TEST PERIOD PILS CALCULATION

MR. ROZIK: The next interrogatory was Exhibit I, tab 40, Staff IR 211. I'm just waiting for it to be put on the screen.

MR. NETTLETON: Sorry, is the reference 211 or 311? I think it's 311.

MR. ROZIK: I think it's 211, unless I have that wrong. It's interrogatory 211, OEB Staff interrogatory, Exhibit I, tab 40, schedule staff 211.

This interrogatory was primarily exploring the Board's new pension and OPEB policy that was issued in 2017, and specifically discussing the recovery of the company's pension costs. The company's elected to continue to recover on a cash basis and has provided reasons why that would benefit ratepayers, basically reasons as to the benefits of remaining on a cash basis.

And my question is, has the company ever in the past recovered on an accrual basis?

MR. CHHELAVDA: No, for pensions we have not.

MR. ROZIK: So I guess from day one it's always been on a cash basis?

MR. CHHELAVDA: Correct.

MR. ROZIK: And is it for the same reasons outlined in the response here? Predictability, lower costs to ratepayers, things like that? Or what was the specific reason initially that the company elected to recover on a cash basis rather than an accrual basis?

MR. CHHELAVDA: The cash basis provides, as you mentioned, predictability and stability in what's recovered, so that's why the company opted to recover the cash basis in the past.

MR. ROZIK: Okay. And if you were to move to an accrual basis, just hypothetically, are you able to outline or provide an analysis as to what the significant transition issues would be for moving to a cash basis of recovery to an accrual basis?

MR. CHHELAVDA: We could, but we do actually mention it in our response --

MR. ROZIK: I think one of the items you do, you mention the potential that your regulatory asset would now have to be recovered over a period, but that's -- I understand that that is one of the risks, but you for yourselves internally, what would be the major obstacles in terms of, like, for example, maybe ratepayers would end up double-paying, how would we quantify what we've recovered on a cash versus accrual year to date, you know, things like that. Are there any major obstacles that would prevent you from doing it in terms of complexity of calculations, et cetera? And you don't have to answer that right now if you would prefer through an undertaking.

MR. CHHELAVDA: We could provide through an undertaking, I mean, but -- we'll take the undertaking to provide that response.

MR. ROZIK: Okay.

MR. SIDLOFSKY: It's JT1.14.

UNDERTAKING NO. JT1.14: TO OUTLINE OR PROVIDE AN ANALYSIS OF SIGNIFICANT TRANSITION ISSUES FOR MOVING FROM A CASH BASIS OF RECOVERY FOR PENSIONS TO AN ACCRUAL BASIS

MR. ROZIK: Okay. The next item is Exhibit I, tab 40, OEB Staff IR 213. So this IR was just a question on the contribution, so I had a look at the actuarial valuation that was provided in support of the pension amounts, and specifically section 3 of that, the contribution section indicates that zero -- well, the minimum contributions would be zero.

Do I interpret that as being legally the company for 2018-2019 would not be required to make contributions to the plan? Because the plan is in a surplus position and therefore could be funded through the surplus amounts? Is that what the actuary is saying here?

MR. CHHELAVDA: That is what they're saying, correct.

MR. ROZIK: Okay. And then in your response you acknowledge that, yes, the minimum amount is zero, but also they outline a maximum amount. So is that telling me that the company has the discretion to contribute between the min and the max? Although not legally required to, they have the discretion to go above the minimum?

MR. CHHELAVDA: Correct.

MR. ROZIK: But it's solely the discretion of the company and there is no legal requirement to do so?

MR. CHHELAVDA: That would be my understanding.

MR. ROZIK: Okay. And then one of -- in the response as well you talk about reasons why you want to make -- continue to make the -- at least fund the service costs, even though the actuary is saying it's not required. You give several reasons, one of them is being the risk of future special payments.

MR. CHHELAVDA: Correct.

MR. ROZIK: Has the company ever been required to make special payments in the past?

MR. CHHELAVDA: We have, up until, I believe, I'm going to say 2015 or '16.

MR. ROZIK: 2015, 2016? Now, would I be able to see the amount of the special payments -- like, if I went through the notes to your audited financial statements do you break out service costs and special payments or is it all just lumped into one number?

MR. CHHELAVDA: I believe it's lumped into one number, but if you want to see the details of the forecasted special payments it would be in the actuarial valuation report. I believe in the 2015 and '16 reports they're detailed there.

MR. ROZIK: Are they filed somewhere on the record?
MR. CHHELAVDA: I believe they were -- the 2015 valuation report is filed as part of the interrogatory proceedings for this hearing, and I believe the 2015 valuation was filed with the OEB in relation to our transmission application that was recently heard.
MR. ROZIK: Okay. So I can just refer to those valuations to have a look? Okay.
Okay. The next question is Exhibit I, tab 40, staff IR 215. Okay. So in this IR we were just asking for a breakout of the updated OPEB amount that's being sought in rates as a result of an updated actuarial valuation on the OPEB costs. Now, when I look at the table you provided, and then I open up the actuarial valuation that you provided in support of the amounts, and specifically I think it was -- I think it's page 16 of the valuation for the OPEBs -- I see for Hydro One total, I guess company, I see a pension expense for 2018 expected of 88.7 million total.
So now your table shows total company as well, but you are summing up to 104 million. So I'm just wondering what that discrepancy is. And it could be that -- because when I look at the same valuation they have a 2017 comparison, and it looks like the expense for 2017 was 104 million. So I'm wondering if someone just mixed the numbers up, and if so, can we update the response to this interrogatory with the correct numbers? This is all from page 16 of the OPEB valuation.

MR. CHHELAVDA: We'll confirm if that indeed happened.

MR. ROZIK: Well, if you see on the screen now you'll see what I'm talking about.

MR. CHHELAVDA: Yes, I see that.

MR. ROZIK: Yeah. Okay. And just one more thing on the valuation now that we have it up.

So you'll respond to that in an undertaking in terms of the -- or reconciling the expense amounts?

MR. CHHELAVDA: Yes.

MR. ROZIK: Okay. I --

MR. SIDLOFSKY: That's JT1.15.

UNDERTAKING NO. JT1.15: WITH REFERENCE TO EXHIBIT I, TAB 40, STAFF IR 215, PAGE 16 OF THE OPEB VALUATION, (A) TO RECONCILE THE EXPENSE AMOUNTS AND (B) TO PROVIDE THE QUANTUM OF THE EXPENSE.

MR. ROZIK: Actually, there's a second part to the question that may require an undertaking as well. So maybe leave it open. And it's, when I read the valuation it says that there is an update pending because the valuation was done using the 2016 discount rate, and I guess at the time the year end -- the 2017 year-end rate was not known, and I think it indicates that an update would be coming. Has that been done?

MR. CHHELAVDA: Yes, it has been.

MR. ROZIK: And is it materially different?

MR. CHHELAVDA: I believe the discount rate used --

MR. ROZIK: Well, just the quantum of the expense even, if you know off the top.

MR. CHHELAVDA: I don't know the quantum of the expense off the top --

MR. ROZIK: So can we see the update? Or can it be provided?

MR. CHHELAVDA: It can be provided, yes.

MR. ROZIK: Okay. So that should probably be part of the same undertaking.

The next item is Exhibit I, tab 40, staff IR 217. This is really quick. Are you able to -- you reference some FERC guidance on this in terms of -- for the U.S. Are you able to provide that? We've had a look and cannot find what was being referenced.

MR. CHHELAVDA: There is some FERC guidance and we will be happy to provide it.

MR. SIDLOFSKY: JT1.16.

UNDERTAKING NO. JT1.16: TO PROVIDE THE FERC GUIDELINES REFERRED TO IN EXHIBIT I, TAB 40, STAFF IR 217

MR. ROZIK: The last item here is Exhibit I, tab 57, Staff IR 270. It's in regards to the ISO 121.8 million credit that's being received. That credit in particular, does any of that credit relate to -- is it all non-RPP customer base, or is it split between RPP and non-RPP?

MR. CHHELAVDA: I believe you asked that question in question D, and we mention it's all related to account 1589.

MR. ROZIK: That was a question, you're right. But in

1589, my understanding is both the GAAR RPP and GAAR non-RPP is recorded in the same account.

MR. CHHELAVDA: Let me take that as an undertaking to confirm.

MR. ROZIK: Okay. Let me take it a little bit further. So in addition, if it is and the credit does relate to both, are you able to split it out for me into how much is RPP how much is non-RPP? And then the third part of that question is will a portion of the credit have to be refunded back to the IESO related to the RPP portion?

The question is based on the fact that it's correcting an error from historical periods basically. So I'm just wondering if your RPP settlements with the IESO during that period would have not been correct as well, and therefore a portion of that credit would in fact be due back to the IESO to make them whole for those errors.

MR. CHHELAVDA: Of the 121 million, a portion was the -- to keep the IESO whole because they would have to recover some amount from all utilities, a portion was refunded back.

MR. ROZIK: Do we know what portion that is, dollar-wise?

MR. CHHELAVDA: It was 26 million; it's in part E of our response.

MR. ROZIK: That's what that charge was, the 26 million? And is that related to the RPP component of it?

MR. CHHELAVDA: I will have to confirm that.

MR. ROZIK: Okay. So my last question was with the net impact, based on your response in E, does that mean the net impact to account 1589 would be the 128 -- 121.8 million dollar credit from them, less the 26 million dollar charge?

MR. CHHELAVDA: That is correct.

MR. ROZIK: So it would be 95 million dollars, for example, or whatever -- something along those lines?

MR. CHHELAVDA: Yes.

MR. ROZIK: The credit to account -- the actual credit to account 1589 would be in the 90s?

MR. CHHELAVDA: Correct.

MR. ROZIK: Okay. That's it for me. Thank you.

MR. SIDLOFSKY: Thanks, panel. Those are Staff's questions for panel 1. We're going to take a break now until -- I'm going to say 3:35. And up after the break will be Schools, followed by VECC and CCC.

--- Recess taken at 3:20 p.m.

--- On resuming at 3:40 p.m.

PRELIMINARY MATTERS:

MR. SIDLOFSKY: We are back. And just a couple of preliminary items. First of all, do we have people on the line as well? Mr. Aiken?

MR. AIKEN: Yes.

MR. SIDLOFSKY: Okay. You and I have exchanged some e-mail about your questions, and I believe Hydro One is fine with you submitting those questions in writing for panel 1, but maybe you could confirm that that's your plan now.

MR. AIKEN: Well, I was going to submit the questions I have on the working capital. I do have questions on some of the other things, and I just emailed you a minute ago on issues 7, 9, 44, and 45.

MR. SIDLOFSKY: Okay.

MR. AIKEN: I would be happy to submit those as well.

MR. SIDLOFSKY: Randy, if you want to go now, I see a number of people in the room who are very accommodating and they're happy to let you go.

MR. AIKEN: Okay. I shouldn't be that long on the other questions that I had.

MR. SIDLOFSKY: Okay. So just to be clear, you're submitting the written questions on working capital?

MR. AIKEN: Yes.

MR. NETTLETON: Randy, it's Gord Nettleton here. Did I hear you say that you would be prepared to submit all of your questions in writing?

MR. AIKEN: Yes, for this panel, just so that you can get done today.

MR. NETTLETON: Right. I would suggest that we do that so that we can get through this panel today and leave the remaining time to those in the room.

MR. AIKEN: That's fine with me.

MR. NETTLETON: Thank you. Randy, do you need an undertaking that they're going to be answered, or are we just going to assume that that'll happen?

MR. AIKEN: I will leave that up to the lawyers.

MR. NETTLETON: I need the undertakings. I really do, because it's a losing battle right now because of how we're going, so, yes.

MR. AIKEN: Okay.

MR. SIDLOFSKY: We'll give Gord his undertaking, and that will be JT1.17 --

MR. AIKEN: You've got to [voice muffled]

MR. SIDLOFSKY: And that'll be to provide responses to -- sorry, to CME's written questions.

UNDERTAKING NO. JT1.17: TO PROVIDE RESPONSES TO CME'S WRITTEN TECHNICAL CONFERENCE QUESTIONS.

MR. AIKEN: Thank you.

MR. SIDLOFSKY: And that takes us to Schools. Mr. Rubenstein.

EXAMINATION BY MR. RUBENSTEIN:

MR. RUBENSTEIN: Thank you very much. I have some questions at the beginning, and you may want to punt these. I'm unclear. They are in the general category, but they are sort of capital-related. And so -- and the questions are for the witness, Mr. Kiraly, so -- who's obviously not one of you.

In SEC 1, so this is issue 3-SEC-1, there's a number of presentations, and if I have questions on those presentations, which are capital-related presentations, is it best that I just ask these for the panel -- the panel 2?

MR. JODOIN: I would say that if you have -- sorry, you said SEC 1, right?

MR. RUBENSTEIN: Yeah.

MR. JODOIN: Attachment 1, if you have any questions on that I can take a shot at providing some answers.

MR. RUBENSTEIN: It's for 3 and 4.

MR. JODOIN: Then, yes, that's right.

MR. RUBENSTEIN: Okay. Great. And this one as well I'm unclear which panel, but this is issue 18, SEC 29. Is that for this panel?

MR. JODOIN: Next panel.

MR. RUBENSTEIN: Moving along. All right. So in -- there's two places for this, so we can either pull up -- best to pull up maybe issue 34 CME -- sorry, this is CME 34B. I apologize, I don't have the issue number for it. But you were asked to provide the 2018 scorecard, and you said it was not -- the 2018 team scorecard has yet to be finalized?

MR. McDONELL: That is correct, Mr. Rubenstein.

MR. RUBENSTEIN: Is that now finalized? Or when is --

MR. McDONELL: It's not yet finalized. I was just inquiring about it the other day. Next couple weeks.

MR. RUBENSTEIN: Can you provide it when it's finalized? I'm unsure -- the way that your answer doesn't seem to be that you're committing to --

MR. McDONELL: It's just, it's not my accountability to approve it, so I didn't want to commit to it, but, yes, we'll submit it once it's approved.

MR. RUBENSTEIN: An undertaking for that?

MR. SIDLOFSKY: JT1.18.

UNDERTAKING NO. JT1.18: TO PROVIDE THE 2018 SCORECARD

ONCE IT'S APPROVED.

MR. RUBENSTEIN: If we can turn now to tab 3, SEC 3. We had asked you in this interrogatory to please provide a copy of all benchmarking analysis reports, opinions, and/or assessments undertaken by Hydro One or for Hydro One since 2014 regarding any aspect that directly or indirectly relates to its distribution business that is not already included in this application, and your response is:

> "Hydro One has provided two studies as attachments to this response."

And then you list those two.

Is that all the benchmarking analysis, reports, opinions, and/or assessments undertaken by Hydro One or for Hydro One since 2014 regarding any aspect that directly or indirectly relates to the distribution business that has already not been filed?

MR. McDONELL: I guess from my point of view -- and I think I already mentioned it -- we will be filing an updated versatile compensation study that was going to be filed for our transmission application, but we'll file it for this application as well.

MR. RUBENSTEIN: So if you -- that one included, are those three studies all of the benchmarking analysis, reports, opinions, and/or assessments undertaken by Hydro One?

MR. NETTLETON: Mr. Rubenstein, I think that this question is -- as identified as being Mr. Kiraly's response, and I think that it's probably best to have this question addressed again with panel 2.

So I can't tell you whether or not at that time I'm going to interject or not on the basis of relevance. I very well may, but I don't think this is the right panel in any event for that discussion.

MR. RUBENSTEIN: Okay. Well, I'll answer it -- I'll ask it to panel 2, and I would appreciate then in the interim Hydro One determines if for all panels if this is the -- this response is fully responsive, and then obviously if you want to object we can deal with it at that time.

If I can ask you to turn to SEC 4. This is again tab 3. If I can ask you to turn to attachment number 2. And I apologize, they're not numbered, so give me a second here to just make sure we're...

If we can turn to the third page. You may want to -- this may get pungent. I just want to understand this. So I understand this document was a submission to the board of directors with respect to the 2018 to '22 application, and under the investment planning process there is this table where you provide the business objectives and you list them.

And if I then turn to the evidence at B1-11-DSP, section 2.1, page 27, I get a different table with different business objectives. There is an additional -- and different scores -- different weights, and I just want to understand, are the -- is one an updated version of the other?

MR. NETTLETON: Mr. Rubenstein, this is a panel 2 issue. This is dealing with investment planning.

MR. RUBENSTEIN: All right. If I can ask you to turn to 3-SEC-6? So we asked you in this interrogatory to provide some internal audit reports, and you provided a very long and detailed Excel spreadsheet with that information of all the internal audit reports that directly or indirectly relates to the Hydro One distribution business.

I was wondering if you can undertake to provide the following reports. This is a subset of those you provided and I'll list them for you: Report 2014-29, entitled "Investment planning"; Report 2015-05 report, "Asset deployment:; Report 2015-32, a report titled "Audit of construction project management processes"; Audit Report No. 2015-34, titled "Distribution asset management and preventative maintenance optimization"; Report 2016-17, entitled "Asset deployment follow-up review"; and Report 2017-14, "Investment plan governance delivery follow-up."

MR. NETTLETON: So, Mr. Rubenstein, again, most of these reports that you've just referred to, if not all of them, concern asset management and that is a topic related to panel 2. I think that the undertaking -- you've made your point.

I think we now have some line of sight as to what reports you're after. I think this is best to raise this undertaking again tomorrow, and we can give a fulsome answer to you on whether that undertaking is acceptable and if not, what ones are not.

MR. RUBENSTEIN: Okay. If I can ask you to turn to issue 43 SEC interrogatory 86.

So you were asked, for each year between 2014 and 2022, to please provide the percentage of OM&A that is undertaken by third parties; please provide a breakdown of which activities they've undertaken and the categories of spending. And your response is essentially we don't have all the data to do this, and it would be too much work to do so.

I was wondering if you can provide me, sort of at a high level, what percentage, the order of magnitude of the OM&A work that is done by third parties.

MR. JODOIN: I think when you -- with respect to what you're asking for, and I do understand what you're asking for, the issue with providing a high level is I don't think there's a system-generated report that we have that can just identify very quickly what that high level percentage is.

This ask involves dealing with the vast majority of departments in the company, and dealing with all of their work programs. So I don't think there is an easy way just to provide that high level analysis.

MR. RUBENSTEIN: I understand, and I'm not asking to you -- I am just trying to get an order of magnitude. Are we talking less than 1 percent? Are we talking between 1 percent and 5 percent?

I'm getting a sense of -- understanding you can't actually, it's too hard and too much work to provide a specific number.

MR. JODOIN: I specifically don't have that data with me right now.

MR. RUBENSTEIN: Will someone on panel 2 be able to?

MR. JODOIN: The vast majority of the work program does sit with panel 2. They're probably in a better position to answer that with respect to the account abilities that they cover. I'm sure you'll hear a similar response, but you're welcome ask that question to panel 2. I know I'm making lots of friends on panel 2, but --

MR. RUBENSTEIN: That's fine. If I can ask you to turn to tab 40 SEC Interrogatory No. 83 -- sorry, issue 40-SEC-83. In part A, this is regarding the Mercer compensation setting. And in part A, essentially we asked to you provide an estimate of the dollar difference between the weighted average total compensation for Hydro One's employees allocated to its distribution in the P50 meeting using the study. Please provide that amount for 2016 through 2018 and how you who you got to it.

You provide the chart -- you respond and you provide a helpful chart on Table I on the next page. I just wanted to understand how you've come to these numbers where you're allocating. And as I look through the chart, you have the $71 million which was the total, to my understanding, between the Mercer P50 and what Hydro One's compensation. And then what you've done is you've broken it down into four -- you've determined the percentages broken down in four categories, TX, DX, OM&A and capital.

As I understand how you've done that is you've used the labour content is D13, schedule 1, attachment 1. I believe that's the Black & Veach report. Do I have that correct?

MR. JODOIN: That's correct.

MR. RUBENSTEIN: I was wondering if you could help me understand, and maybe by way of undertaking it may be better if I just explain to you. If you can point to me where exactly you're getting the numbers to make that allocation. And I ask this because if I understand the response in the chart you provided in the compensation update at C1-210, attachment 6 , page 7, you provide, based on what the Board had asked, a chart. And you have also there broken down total compensation into those four categories.

And in the lead-up to that evidence, it talks about similar methodology. But I get really different numbers when I'm trying to split those compensations. Like, I don't get for 2016, 12.3 percent for TX OM&A, or 27.4 percent; I get different numbers.

So I was wondering if you could do two things for me: Point into -- by way of undertaking, point to how you're getting those numbers from that Black & Veach study and the breakdown. And then if you could explain to me how that may be the same or different from what you've done in attachment 6 to C1 to 10.

MR. JODOIN: Your question is fair and I'll provide a little bit of colour. If you did flip to that study, they don't actually specifically outline in the report that we filed what those percentages are. It's in their detailed analysis that we leverage. So we apply the same sort of methodology. That's why you wouldn't have been able to find it.

I think your question is fair and we would be able to do that.

MR. SIDLOFSKY: That will be JT1.19.

UNDERTAKING NO. JT1.19: TO POINT OUT THE DERIVATION OF THE NUMBERS FROM THE BLACK & VEACH STUDY AND THE BREAKDOWN; TO EXPLAIN HOW THAT MAY BE THE SAME OR DIFFERENT FROM THE CALCULATION IN ATTACHMENT 6 TO C1 TO 10

MR. NETTLETON: Mr. Rubenstein, just so I'm clear, as I understand it, it's really just to provide the formula used to obtain the percentage results that are shown in table I?

MR. RUBENSTEIN: Yes, it's that, and as well if you can reconcile with what you did in C1-210, attachment 6, to derive those breakdowns in a similar way because they appear to be different.

MR. JODOIN: We understand the request and we'll complete that.

MR. NETTLETON: Do we have an undertaking number for that?

MR. SIDLOFSKY: Yes, that was JT1.19.

MR. RUBENSTEIN: I don't know if you're going to punt me or not. This is issue 24-SEC-46, but it has Mr. D'Andrea as the witness, so I -- and it involves the AESI Hydro One Networks network distribution system plan review report, and I don't know if that's for this panel or the next panel. This is SEC 46, under issue 24.

I'm going to ask to follow up on your response in part E.

MR. D'ANDREA: Panel 2 question.

MR. RUBENSTEIN: All right. I just want to -- before I finish, I want to follow up on some of the questions BOMA was asking you about with respect to some of the rating reports that were provided in response to, I believe, BOMA B156 that Mr. Brett had taken you earlier on. And I was wondering if there is anywhere in the evidence or if not you can provide, once Hydro One Limited closes the Avista transaction, what percentage of Hydro One Limited will be made up of each of Avista and Hydro One Networks Inc.? Are you able do that, provide a breakdown by, say, revenue or asset based? So we have a sense of the relative sizes of both those entities to the entire Hydro One Limited family?

MR. NETTLETON: So Mr. Rubenstein, a couple of things. One is the difficulty with that is that the transaction has not yet closed. However, there is information on the public record; namely, annual reports of the companies that report all sorts of different metrics, whether it's revenue, whether it's assets, and the like. And it's -- I think if you're looking for, you know, a comparison of what is before versus what might look like after by examining those -- that publicly available information, I think it's there for your consideration. But I don't know what we can do or why we would be asking that type of question here in this proceeding when the Avista transaction is not something that is under this Board's jurisdiction or regulation.

MR. RUBENSTEIN: Well, I recognize that the Avista transaction does not, but as Mr. Brett brought you towards certain rating agency reports which we can all take whatever -- read them however we wish, but they seem to indicate that there is a -- it may -- the result -- the view from the market at least, the view from some of the rating agencies, is that it may have a downward pressure on the ratings, which may lead to a higher pressure on the cost -- the ability for Hydro One's cost of debt, and I just want to understand -- maybe that's the case, maybe that's not, and I just want to understand the proportion so we -- the risk that Hydro One Networks may face because of that increase in terms of its debt, which is obviously relevant to this application.

MR. NETTLETON: Well, I don't follow your logic to its natural conclusion, specifically because of the clarification that Mr. D'Andrea provided to Mr. Brett regarding the risk that you're describing and the misunderstanding, respectfully, that any risk associated with a downgrade or higher cost of debt associated with a downgrade is something viewed as going to be considered in this application. That is an application for the recovery of a revenue requirement for the next five years, because of the methodology by which Hydro One is applying for it.

So I'm not -- what I heard Mr. D'Andrea say also is that matters related to higher costs of debt is not something that ratepayers are going to be -- as it relates to the Avista transaction is not going to be something that Ontario ratepayers are subject to.

MR. RUBENSTEIN: All right. I'll leave it at that. Those are my questions for this panel.

MR. SIDLOFSKY: Thanks, Mr. Rubenstein.

Moving on --

MR. RUBENSTEIN: I transfer my time to panel 2.

MR. SIDLOFSKY: Moving on to, sorry, VECC, thank you.

EXAMINATION BY MR. GARNER:

MR. GARNER: Thank you. Good afternoon, panel. My name is Mark Garner. I'm with VECC. Sorry, just following the last conversation with Mr. Rubenstein, Mr. Nettleton -- and this could be just my confusion. There is a cost-of-capital update, though, that happens in '21 with the acquired, isn't there?

MR. NETTLETON: Yes. Correct, Mr. Garner, and I thought about that just as I was speaking and realized that, yes, we are seeking in this application an update.

MR. GARNER: An adjustment at that time.

MR. NETTLETON: Yes.

MR. GARNER: So --

MR. NETTLETON: But I do think that what we heard from Mr. D'Andrea today regarding that update and regarding the risks as it relates to Avista and as, you know, pointed out in these Moody and Standard & Poor's ratings as it relates to this application, my understanding from Mr. D'Andrea -- and feel free to clarify -- is that is not considered to be a regulated risk that the ratepayers in Ontario, customers of Hydro One Networks, is expected to bear.

MR. GARNER: Okay. I'm not sure about that, but let me ask you this, and to the company and the panel -- or Mr. Nettleton, if you would like to just clarify too. When you do the update in '21 for the cost of capital is there a process, an opportunity, in front of the Board to have -- is that being reviewed at the Board when that happens? Is there a process around that? Is that how it's anticipated to happen?

MR. D'ANDREA: We would file the application with the updated data and the Board would --

MR. GARNER: Would make a decision on that.

MR. D'ANDREA: Right.

MR. GARNER: Okay. Thank you.

My questions and my colleague Mr. Harper's questions are going to be a bit on the acquired utilities. But -- and the questions that I have are really mostly around tab 9 and VECC questions basically 10 through 14. But if Hydro One would instead -- bringing any of those up -- bring up the Table 1 at Exhibit A, tab 3, Schedule 2, page 7. And it's a -- you'll know this table. It's a summary of the revenue-requirement components that basically set up the model that you do. I think it's just the easiest one for me to ask my questions from and give you a sense of where we're going. So it should be at Table -- it's called Table 1, and it has a -- rows 1 through 15, and they basically show the different adjustments under the model that you have from '18 to '22. It's Exhibit A, tab 3, I think Schedule 2, page 7, I hope, with any luck. Somewhere just, I think, before those tables. Table 1 is the table. Yeah, it's that table right there. And just using this table, because it helps me explain or ask questions as I go through.

Now, the first thing that I was trying to do -- and I was wondering if you could help me with, is I was trying in the interrogatories and especially in VECC 12, and you've given the response in VECC 12. But what I was trying to do, and I didn't do it very successfully so maybe you can help me here, was I was trying to understand the relationship between the capital spending in each year, '18 through '22, and how that capital spending translated into the Table 1.

And in an awkward way what I did was I ended up saying to myself, okay, so in 2019 your capital expenditure budget is 756.8, but your additions in that year are 378.2, so -- if you subtract from year to year. And I said, okay, well, that must be because it's one-half of the capital additions they're putting in in that year.

Well, when I tried to do that math it changed every year. Some years it was 56 percent, some years it was something different. So here's really the question that I have, and I'm wondering if you can help me with. Is there a way for you to help me understand how I can translate each year's capital budget into the adjustment that I'm seeing in Table 1.

And the reason I'm asking that is that as we go through this process should we argue -- and we may or we may not argue -- about adjustments to that capital budget? I wanted to have a mechanism that I could understand what impact does that have on the formula and the adjustment that the utility wants. Do you understand what I'm driving at? So what I'm trying to say is could you find a way to show me how the capital budget in each one of those years is being inputted? It's there because there is capital additions and depreciation, but I can't get those numbers to reconcile to each other.

MR. JODOIN: I think -- and we'll try and get there, but take it a step at a time. You've said a few numbers that we couldn't reconcile on the page. But let me start first by saying it's in-service additions that will increase rate base.

MR. GARNER: Right.

MR. JODOIN: So now the sum of in-service additions, as you know, represents capital spend. So we do take into account the timing of in-service additions by project and that's what feeds our rate base, and thus revenue requirement calculations.

MR. GARNER: Right. And I'm not asking you to respond to the numbers directly I'm giving to you, because I'm just giving them out ad hoc. But what I'm actually doing is I'm taking the in-service additions by subtracting the rate base from '18 to '19, '19 to '20, and '20 to '21, and that's telling me how much my average rate base is going up in each one of those years.

I'm looking at the capital budget for those years and the reason -- and as you say, you're doing capital additions or in-service additions, not capital expenditures and there is work in progress et cetera. But you have to make some assumptions because you're forecasting this, right?

So I have to ask myself how did you, when you were doing your forecasting, translate your capital budget into in-service additions. And I thought it would turn out to be a very simple mathematical problem because you must be forecasting it, right?

So I wasn't sure how were you forecasting, for instance, work in progress. Did you use the same number, or did you do something different. I was trying to do that relationship about how you were taking your capital forecast and changing that into an in-service addition in each year, because it didn't seem to have a clear one-to-one or 50 percent correlation of putting 50 percent of your capital expenditures into in-service each a year. That didn't seem to be what you'd done, when I looked at the numbers.

MR. JODOIN: No. So in-service is built up by detail. It's something my friends on panel 2 would be able to discuss.

However, what I can direct to you is probably Exhibit D1, tab 1, schedule 1. And what is set out in this exhibit are rate base continuity schedules essentially showing the components of rate base that should support the math you're trying to come up with.

MR. GARNER: I realize that and that was difficult for me to find out that math supported what I call -- this table, and correct me if I'm wrong, but this table I'd call is fundamentally the rate model you're using for five years. It shoves out the numbers based on your forecasts of what you're going to do.

And I think we asked a question about this, and the only thing that's going to change over time in this is inflation and in '21, putting in the acquired utility. So we're basically looking at your model in this table, if I've got it right.

So I want to be able to understand how that model got from your capital expenditures to the model output you're setting rates with -- or revenue with, sorry; it's not setting rates.

If you would like to take an undertaking and look at it -- and maybe the next thing to do before you answer that is to go actually VECC 12, which sort of also got me into why I was having some difficulty understanding the table that does all of this.

In VECC 12 on page 2, I believe, of two, you have a table you've given me with year end plant additions as per

Exhibit Q-1-1. Now, are these numbers that are provided in here directly correlated to the numbers you find in the rate base additions that you're looking in table I? So will those match up? I'm trying to use those tables to find that number to match up with your capital addition, your capital expenditures also.

MR. JODOIN: So the first part is, and I think it's important to note the table that you brought us to initially, table 2 --

MR. GARNER: Table 1, you mean?

MR. JODOIN: Sorry. We provided an update in Exhibit Q of that exact table, the first one you brought to us in Exhibit Q. Okay.

MR. GARNER: So you're saying -- okay.

MR. NETTLETON: Can I just -- it's very important for the record that we make sure that we're referring to the right table.

So if there is an Exhibit Q-1-1 that has been revised, let's go to that and make sure that's the one we're all on.

MR. GARNER: Thank you, Mr. Nettleton.

MR. NETTLETON: Mr. Garner, as I'm following this discussion, is the essence of your question a reconciliation between the capital expenditure numbers that are reported in VECC 12 in the capital expenditures and how that correlates to the number found in line 8 of table 2 found in Exhibit Q-1-1?

MR. GARNER: Yes, I'm using table 1, and I see here the updated table is table 2. Yes, I think it's not --

it's actually line 1.

So what I'm trying to do is correlate the capital budget back to line 1. And again, if it's of help to the panel, what I'm trying to get from you is a way -- an undertaking would probably be the best thing for me, and maybe others, to be able to, as we progress, to see how that capital budget as it changes will change those numbers, so that I myself can get an understanding of the impact once we get into the arguments -- discussions about capital budgeting, what impact are we really looking at of any impact on the actual outcome of what I'd call the table, the updated table here.

MR. NETTLETON: Let's break this down because I think there's several points here. If it would be helpful, Mr. Garner, maybe what we could start with is having the witnesses talk about reconciliation between the numbers shown in this interrogatory response and how it relates to either line 1 or line 6 of table 2, and then stop there and see what we move to.

MR. GARNER: Fair enough.

MR. NETTLETON: So, Mr. Jodoin, can you help us?

MR. JODOIN: Sure, I can. I think it would be helpful if we pulled the interrogatory back up. I can confirm that the rate base growth that would have existed in table 2 from Exhibit Q would be increased by the mid year plant additions identified in part 3 of this interrogatory, which is Exhibit I, tab 9, VECC 12.

MR. GARNER: Those mid year additions, will they correlate with the updated capital expenditure numbers that you've provided, so those represent the mid year addition of those capital expenditures?

MR. JODOIN: In-service additions.

MR. GARNER: In-service additions. And the difficulty I had still with that was I couldn't intuitively myself say how did you do that. How did you get to that number because let's say -- and I'll just abstract the example. Let's say the capital expenditures were 300 million and the in-service addition -- or 700 million and the in-service addition was another number, let's say 350 or something, whatever it was. And the next year it would be something else, but it wouldn't be the same percentage. It might be 40 percent, and the next time it's 45 percent, and I couldn't figure out why that's changing each year, why wouldn't it be just a steady number.

MR. JODOIN: There is no rule of thumb from capital expenditures to in-service additions. In-service additions represent capital spend once the asset becomes in use.

MR. GARNER: I realize that. What I'm saying is that's definitely true in reality. But when you're forecasting, you have to sort of say to yourself, well, I'm forecasting $800 million of capital expenditure in two years from now. Ergo, I'm also forecasting the in-service addition from that, right, because as you point out, you don't know actually in the moment what's going to happen. Some stuff will be work in progress, et cetera.

So you're making a forecast and somehow someone used a modelling -- it would seem to me someone used a modeling to do that.

MR. JODOIN: So panel 2 is the better panel to discuss the work program plan and the in-servicing of it. But what I can tell you is that it's done on a project-by-project basis, forward-looking, and you cannot just use a simple rule of thumb in any given year, so if you have project X that's scheduled to go in-service in 2021 that has capital spend between 2018 and 2021, all of that spend will go in-service in 2021 --

MR. GARNER: Okay. Well --

MR. JODOIN: -- and that will change across all sorts of different projects, thereby eliminating any chance of a rule-of-thumb approach.

MR. GARNER: So let me say it back to see if --

MR. JODOIN: Sure.

MR. GARNER: -- I've got this correct. So you're saying in 2022 the way your forecasting works is you have a detailed enough forecast that you're actually on a project-by-project basis determining what is going into service in that year?

MR. JODOIN: It would be most appropriate for panel 2 to address that question, but I can tell you that they build up the investment plan on a project-by-project basis.

MR. GARNER: Okay. I think that --

MR. JODOIN: Okay.

MR. GARNER: -- that's great, thank you.

Now, the other question we had on this -- let me see if I can find which one. It's the -- I think it's 14. It's, I think, the acquired utilities -- it's VECC 14, which follows in the same row of these. Yes, it is. It's tab 9, Schedule -- VECC 14.

Again, using Table 1 or 2 as updated, again, we probably weren't very articulate in asking this question, because I don't think we got back the response we were anticipating. What we were hoping when we asked this question is that you were able to take Table 1/2, whichever one is the most recent, and actually pull out for 2021 the specifics to the acquired.

So we could actually kind of see the acquireds' effect on that year vis-a-vis the normal as you were doing each year as a fact and take out that piece of information separately? Is that possible to do?

MR. JODOIN: Absolutely, that's possible.

MR. GARNER: If we can maybe get an undertaking for that, please.

MR. SIDLOFSKY: JT1.20.

UNDERTAKING NO. JT1.20: TO PROVIDE AN EXPLANATION SHOWING THE ACQUIRED'S EFFECT ON THAT YEAR VIS-A-VIS THE NORMAL AS YOU WERE DOING EACH YEAR AS A FACT; AND TO TAKE OUT THAT PIECE OF INFORMATION SEPARATELY.

MR. GARNER: Thank you. And my friend Mr. Harper is going to have a few more questions on the acquired, but I would like to just now go to another question. Again, I think it was our -- my inarticulation that I think made it difficult for you. This is VECC 11 on these -- issue.

It's at tab 9. They're all on tab 9. VECC 11, I believe. Is it this one? Oh, yes, well, yes, VECC 11 -- this wasn't my thinking, but I'll ask this question too. I understand, I think, reading this -- I'm looking at, actually, VECC 11C, the relationship between capital investment and reliability outcomes, and what you have done in this interrogatory is referenced me back to some evidence on your distribution plan that shows system reliability stuff, which is fine.

What I was really trying to ask and would like to follow-up with is, my question really was trying to ask or get to this -- is why didn't -- why isn't -- or maybe it isn't possible, but why didn't the company consider using reliability outputs since they have them, as you point out in your distribution plan, in order to use that as an input as to whether -- how the adjustment should be made?

So you're using as an efficiency outcome is -- what I'm saying is this, is if you have a reliability target and you don't meet that target, why was that not used, or if you even exceeded that target, whichever way it went, why would that not be a useful input into your adjustment on the efficiency of your capital? So why aren't you measuring it that way and then asking yourself, if I measure it that way that's how I get my adjustment -- efficiency adjustment on capital. You're asking for an efficiency adjustment, but the measure of efficiency is what I was asking about and saying is what's wrong with using the measures that you've put forward in your own DSP as a measure of that efficiency since you have targets within that plan? Was that not possible or is that just an alternative that wasn't considered?

MR. D'ANDREA: I'm sorry, we're not clear whether it was considered or not as an option.

MR. GARNER: Well, who is? Who did the plan? Who did this idea?

MR. D'ANDREA: The distribution plan?

MR. GARNER: No, who did the idea, come up with this? Who knows -- I mean, when you -- when this was being discussed, who is the person that knows that then? I just don't understand that.

MR. NETTLETON: Mr. Garner, I think the trouble here is the overlapping nature of the issue. When you're dealing with reliability statistics like SAIDI and SAIFI and you're talking about the distribution plan, those are matters that fall within panel 2. That's Ms. Garzouzi and Mr. Jesus.

MR. GARNER: I have lots of questions about that, because I don't actually understand some of the reliability statistics, but my question is actually much higher level than that. My question is -- and to this panel, who I thought was -- understood was prepared and understood these questions about how you develop this plan. My question was really about, you do have reliability output. So let's say you have a capital program to fix insulators, right? And then you have -- you target how that's going to work and whether in fact it decreases your reliability. And if it doesn't then your capital plan isn't working very well; and if it does your capital plan is working as you'd hoped it had. And therefore that measure becomes your input on your capital efficiency.

And because you're measuring those things in your DSP already and you have set some targets, it begged the question to me as, so why aren't those linked up with your capital plan in here and were they ever considered as part of the plan to set efficiencies for your capital program, because you have a capital efficiency concept. And you're saying is you don't know, and Mr. Nettleton, I'm not trying to be hard on anybody, but I'm saying: Was that actually a discussion? When and how?

MR. NETTLETON: Yes, so I'm reverting back to the IR, and I think that the IR was not asking a "why" question, it was asking a "what" question. And so I think that it's fair to say that, oh, maybe I should have asked a "why" question and that was the intent. We interpreted differently. I think the question that you're now asking if it's "why" is probably one that requires a little bit more thinking than just asking the question today in this conference to this panel to give a fulsome answer.

But I would ask Ms. Lee to also chime in here and help with the rationale that we believe does help you with the question you're asking.

MS. LEE: I'll refer back to an IR exhibit that was referenced earlier in our discussion with Tom Brett from BOMA, and unfortunately I don't have the reference on hand, but it is the one in which we referred to Toronto Hydro's approach and their custom IR method. Frankly, we took a conservative approach in this application, relying on conventional mechanisms and proven, if you will, methods to improve our likelihood of success, and as far as I know the approach that you're suggesting has not yet been -- I don't know if it's been attempted or definitely not approved by the OEB yet.

MR. GARNER: Yes. Thanks, Ms. Lee. Yes, I know that. And again, I'm going to move on, because -- but here's where I'm going, because I will have questions of the panel does reliability stuff, so I do want to understand more about that. I was really trying to get an understanding of how you might yourself have considered that in your plan, and if it were, for instance, that you didn't have good enough reliability statistics, you didn't have something, something actually caused you to say, no, that's not where we're going right now, and I think I'll take Ms. Lee's answer for that right now and just move on from --

MR. NETTLETON: Mr. Garner, I do recount this issue coming up in the transmission case, questions very similar to this of, why have you not baked into your scorecard or your planning process more reliance on the SAIDI and SAIFI statistics, and I think, as you know, in that process there was a very significant distinction that was made between those statistics being post facto metrics versus the reliability risk methodology that we were attempting to look at and use for purposes of doing exactly what you're suggesting of looking at reliability from a more perspective context. And I suspect that that may be the nature of the issue as it relates to reliance on statistics like SAIDI and SAIFI for purposes of future capital spend.

MR. GARNER: Thank you. I'm going to go to VECC Interrogatory No. 10 now, and again it's tab 9, VECC 10. And in this interrogatory -- again I don't think I was being very articulate because I wasn't challenging anything that you told me he was doing. I was trying to understand something, if it were done differently.

Let me ask you this, first of all, that I've got this right. The CIS VA account or -- I can't pronounce it, so whatever you're going to call it. As I understand it, that account will be asymmetrical. So what it does is if you under-spend, it protects customers from the sense of under-spending that capital budget that's being built into the rate adjustment.

If you over-spend, you basically just eat that up as part of day-to-day work, because the plan is basically set. Is that a fair characterization of the way it works?

MR. CHHELAVDA: That would be correct.

MR. GARNER: Thank you. Now, what I didn't really understand, though, is -- and I think we asked this question. Does the capital factor number actually change, and I think the answer was no it doesn't. It's based on a forecast, and it only changes in '21 when you have a capital -- a cost of capital adjustment.

So then I asked myself, and I ask this in this question, well, instead of doing an account like this given it's going to be basically a fixed number, couldn't you develop something without the account and basically make the adjustments retrospectively instead of what you're doing as prospectively.

And this went to the other part of the question which is given these numbers -- and again I'm using table 1 and it may be updated, so I apologize. But the table I'm using originally had a capital factor of 1.96, 1.83, 2.78, 1.39, whatever they are now, and I thought, well, those numbers aren't going to change except in '21 when you do the capital adjustment.

So given that, why couldn't you set a standard number and make your adjustment that way rather than do the kind of adjustment you're talking about? Why bother with that? So what would preclude you -- I guess I'm trying to figure out why wouldn't it be just simpler for you to make the adjustment from the perspective year past.

So you finish your year, you've got your capital program, you can see whether it matched what you said and You make your adjustment going forward each year.

Do you understand what I'm trying to say? Maybe I'm being no more articulate than I was in the interrogatory. But rather than doing this sort of CIS VA account, why not just make your adjustments in the next following year based on actual capital expenditures?

It doesn't seem to me it would make any real difference to what your proposal is.

MR. D'ANDREA: There's two elements to it. One is, as we noted in response to B, that we do the custom IR based on forecasted costs. The other element is to properly factor in the capital factor, you also have to look at the productivity factor. So if you look at the table, line 7 takes the productivity factor off the capital as well. So you don't want to over-collect on capital. To be fair, when you come up with a capital factor, you want to make sure you're not getting a double effect on the capital piece of it.

MR. GARNER: Thank you. I'm going to hand this over to my colleague, Mr. Harper. Thank you.

EXAMINATION BY MR. HARPER:

MR. HARPER: Thank you, Mr. Garner. The first question I have has to do with issue 38 and VECC-51A. Here we've been asking about whether the acquired utilities were included in the performance statements for 2017 and you said no, they weren't.

I just wanted to clarify. That would also apply to your actual 2016 financial statements that you recently filed? The acquired utilities wouldn't be reflected at all in your actual 2016 distribution financial statements?

MR. CHHELAVDA: Are you referring to our 2017 financials?

MR. HARPER: No, your 2016 that you filed as Exhibit A, tab 6, schedule 2, in the current proceeding. You recently filed -- after the update, you filed your 2016 statements for distribution?

MR. CHHELAVDA: To the extent that we closed the transaction, then the actual results for that utility would be included in our results.

MR. HARPER: They would be included in your distribution results for 2016 now that you've closed the transaction. But they weren't included in the pro forma statements for 2017 that you filed with the original application?

MR. CHHELAVDA: Perhaps if you can point us to which pro formas you were referring to --

MR. HARPER: I was asking -- if you just go back to VECC 51, I was asking whether the OM&A costs were included in the -- what was the treatment of the OM&A costs for those acquired utilities in Exhibit A, tab 6, schedule 3. And my understanding is Exhibit A, tab 6, schedule 3 were the pro forma statements for 2017.

And the answer I got back was the OM&A costs shown in the performance statements for income in Exhibit A, tab 6, schedule 3, do not include the acquired utilities. I was taking that to mean that the pro forma statements for 2017 did not include any costs related to the acquired utilities.

And then I guess my follow-up was subsequent to that original evidence being filed, you've now provided the actual distribution financial statements for 2016. They were filed as Exhibit A, tab 6, schedule 2, if I'm not mistaken.

So I was just wanting to confirm that similar to the response you gave me here, the acquired utilities costs -- I was using OM&A as an example, but all the costs were not included in the actual financial statements that you've now filed for the distribution business for 2016.

MR. CHHELAVDA: Our 2016 financial statements for the distribution segment would include all our distribution operations. So the acquired utilities, to the extent that we acquired them, would be included. But for the pro forma financial that's included in this application, they are not included.

MR. HARPER: So one of the things I asked you in this IR was to reconcile the difference between the OM&A costs you included in the -- that you had referenced for 2017 and that was in the pro forma statement, and you gave an answer it was some costs related to some unregulated activity related to government. That was related to the green energy program that was in part B.

And so I was assuming that if I looked at the 2016 financial statements for distribution and OM&A there and tried to compare that with what was the 2016 actual OM&A that you got reported in the application here, that none of that difference would be related to the acquired utilities.

It seems to me that what you're telling me now is that part of the difference between those numbers will be related to the acquired utilities, because your actual financial statements for 2016 did include the acquired utilities.

MR. NETTLETON: Perhaps it's the lateness of the hour of this day, and attention spans are short like mine. But what I'm not following with this line of questioning is this. I think what Mr. Chhelavda had said was that the financials that were publicly available for distribution did include the acquireds.

MR. HARPER: Right.

MR. NETTLETON: The financials that have been filed for this proceeding have not included the acquired utilities. And that this interrogatory response actually makes that point clear and it says -- and it provides information regarding the OM&A forecast for each of the acquireds and provides a breakdown of the revenue requirement.

MR. HARPER: This interrogatory states that -- what I took from this interrogatory response, part A, was that the acquireds were not included in the OM&A that you've submitted for your revenue requirement application up until 2021, which I think was the point. But they were also not included in the pro forma financial statements that you had filed for 2017 for the distribution business.

Maybe not being an accountant, I don't understand what pro formas are. But I thought a pro forma statement would just be your best guess as to what the actual financial statement for 2017 would look like when it was actually finalized based on the forecast costs.

MR. NETTLETON: Let's get the witnesses to help us on that.

MR. HARPER: Okay. So -- and maybe it's my understanding of what a pro forma statement is, and I apologize if that's the case, not being an accountant.

MR. CHHELAVDA: In the interests of clearing up this confusion we'll undertake to provide what's included in the 2016 distribution financial statements and what's included in what was filed in our application, so we'll do that.

MR. HARPER: Because that's what I was in the end trying to do, and I was getting a bit confused between the two. Thank you very much.

We can have an undertaking number for that?

MR. SIDLOFSKY: JT1.21.

UNDERTAKING NO. JT1.21: TO CLARIFY WHAT IS INCLUDED IN THE 2016 DISTRIBUTION FINANCIAL STATEMENTS AND WHAT IS INCLUDED IN WHAT WAS FILED IN THE APPLICATION.

MR. HARPER: Okay. Now, if we can go to issue 40 VECC 54B. And this is just a setup. And I understand from this that you've stated that there is no forecast incremental corporate OM&A cost for the -- you haven't included any -- you haven't included any common corporate OM&A costs associated with the acquired utilities as part of the OM&A costs for acquired utilities in the application prior to 2021?

MR. JODOIN: Sorry, I was just waiting for the screen to come up and turning to my -- would you mind repeating your question?

MR. HARPER: I was just looking at the response to B(i), sort of the last half of that, where it's saying:

"Hydro One has not forecast any incremental increase in common corporate costs as a result of these transactions; therefore the common corporate costs as provided in the exhibit are recovered from legacy distribution ratepayers only."

Which means none of them were being -- none -- no common corporate costs are being allocated to the acquired utilities is what I took from that.

MR. JODOIN: That's correct, up until 2021, when a cost allocation process would --

MR. HARPER: Could you turn up the responses -- the same one I've heard before, VECC -- issue 38-VECC-51, part C. Here in this part I've asked you to provide a breakdown of the OM&A costs you have attributed to the three acquired utilities for the years '17 and '18, and given the other response I was kind of curious to see at the fifth category there was common and corporate costs, and there were costs included there, and I was wondering if you could reconcile the fact we have costs included in here with the response you just gave me earlier that there are no costs attributed to these acquired utilities prior to 2021.

Maybe it says "other" -- maybe it's all in the other category and none is common costs, I don't know, but I'm just trying to reconcile those two responses.

MR. JODOIN: So what I can confirm is that table is our standard, very high-level way of breaking out OM&A costs between sustainment development operations, customer-based costs, and then what we consider corporate and other.

I don't have the information with me right now to break out what those costs are. I fully understand what you're asking me. Unfortunately I don't have that answer right here. If that is something you would like to us reconcile --

MR. HARPER: Well, like I say, I was just trying to reconcile in my own mind just as a matter of just a confirmation that the other is something other than your common corporate costs, whether that's by way of an undertaking or whether you feel comfortable enough to give that confirmation now that --

MR. BUONAGURO: So after discussion with my colleague here -- and it makes sense that it would be their own costs. So I guess from an acquisition perspective nothing incrementally happened, but what existed prior remains, so that's why that line item would exist.

MR. HARPER: Okay. So that would be sort of maybe some of the admin staff that's still existing in the utility and is working there now -- continues to work there now or something like that.

MR. JODOIN: That's a fair statement.

MR. HARPER: Okay. Fine. And actually, the last question I have has to do with -- give me a minute -- with issue 44 -- actually, VECC 44C, and I'll just find that now. Right. That's at tab 10, VECC -- oh, I'm sorry, no, where is it? I apologize. Yeah, actually, no, there is no IR response.

Actually, what it had to do with is the fact -- and I think as you had a discussion with Mr. Garner earlier, he talked about, you're going -- talking about updating the capital costs, the cost of capital in 2021, and then I noted in your response to 46, City of Hamilton 6, you're also talking about doing a load forecast update for 2021? Yes, and I was wondering, are there any other aspect --

MR. D'ANDREA: That's correct.

MR. HARPER: That's correct. No, I'm sorry, yeah, I --

MR. D'ANDREA: Mic was off.

MR. HARPER: Amazingly enough, I did hear you.

Were there any other aspects of the revenue requirement or the overall -- overall application as you're proposing to do updates on or other than those two items was everything else going to be just running through the formulas as you set out the capital adjustment factors other than for the cost of capital, aren't going to change everything else, it's just going to run through, it's only those two things you're going to update, or was there anything else that you were planning on updating? That was really what that response to the City of Hamilton changed my mind to.

MR. D'ANDREA: Correct. Those are the only adjustments. There is another interrogatory, CC -- issue 13, CCC 15, which describes the annual update process --

MR. HARPER: Okay.

MR. D'ANDREA: -- and it spells it out there.

MR. HARPER: Okay. I apologize. I just missed that one. Okay. Fine. Thank you. Those are all of my questions. Thank you.

MR. SIDLOFSKY: Thanks, Mr. Harper.

We have -- it's 4:45. We have AMPCO, CCC, Energy Probe, Power Workers Union, and OSEA, and by my count that still adds up to about an hour. I would be happy to keep going for a while, but I'm not the one answering questions. And -- oh, and I'm also not reporting on this. So Mr. Nettleton, what are your thoughts about continuing for a while?

MR. NETTLETON: Well, I would first defer to our court reporter to see if she has availability.

MR. SIDLOFSKY: I'm told despite the count on the chart it may be much less than an hour.

MS. GRICE: No, just for me.

MR. SIDLOFSKY: Oh, just for --

MS. GRICE: I'm just saying I could go and finish by 5:00.

MR. SIDLOFSKY: We'll take a five-minute break and we'll press on for a little bit longer maybe. Thanks.

--- Recess taken at 4:49 p.m.

--- On resuming at 4:57 p.m.

MR. SIDLOFSKY: We're back on the air. We're going to finish the day with questions from the Power Workers' Union, and the plan, for those people listening in, is that we'll be starting up again tomorrow morning at 9 o'clock to complete panel 1. We will move on to panel 2. Panel 3 will be on Monday starting at 9:30 in the morning. And Mr.

Stephenson for the Power Workers.

EXAMINATION BY MR. STEPHENSON:

MR. STEPHENSON: I have one question; however, it has 28 parts. Part number one -- actually, no. I do have only one question, and this is for Mr. McDonell.

It's Exhibit I tab 38, PWU number 18. And I think this is a question for you, sir.

MR. McDONELL: Give me the reference again, please.

MR. STEPHENSON: It's Exhibit I, tab 38, PWU 18, and the response to answer part A -- we're talking here about the outsourcing issue and it says -- at the end of part A, you say:

"Due to staff the high volume of intermittent rushing work, Hydro One will be working towards a solution that includes outsourcing labour."

And the question I have is what is: What has to be solved -- what are the constraints, I guess, that have to be overcome in order for you to achieve what you are referring to there?

MR. McDONELL: That's a fair question. So with the PW collective agreement, we have regular foresters. We also have the ability to use the PW hiring hall to supplement the regular work force. So that's our two normal options to perform that type of work.

And what this is referring to is what I would call a purchase service agreement, outsourcing. In order to be able to achieve that, there has to be agreement with the PW. We have a collective agreement requirement that if we're going to outsource or contract out work, we have to either get agreement with the PW and failing that, then we would go to an arbitrator for a binding decision.

MR. STEPHENSON: This isn't a second question; this is all part of the first question. There is only one question. Are you familiar -- there's something called the Inn on the Park accord.

MR. McDONELL: Fair enough, yes.

MR. STEPHENSON: There's something called the Inn on the Park accord, and I think Mr. McDonell says he knows what that is. And I thought that also is a constraint.

MR. McDONELL: That could be. So the Inn on the Park accord is a jurisdiction document between Hydro One and our construction unions. So what we would call -- if we're going to outsource work or use some other option other than PW resources, we call that overflow. And if we are going to overflow that work, that is another mechanism to go to one of the construction unions to perform that work, and again there has to be agreement. And again, I'll go back to my other answer; failing that, we can seek a purchase service agreement.

MR. STEPHENSON: Thank you.

MR. SIDLOFSKY: Is that it, Mr. Stephenson?

MR. STEPHENSON: That's it.

MR. SIDLOFSKY: Okay. So we are going to adjourn for the day and we'll start up again tomorrow morning at 9 o'clock. Thank you.

--- Whereupon the conference adjourned at 5:00 p.m.