



ONTARIO ENERGY BOARD

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

VOLUME: Volume 1

DATE: June 11, 2018

BEFORE: Ken Quesnelle Presiding Member and Vice-Chair
Lynne Anderson Member
Emad Elsayed Member

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 Monday, June 11, 2018,
commencing at 9:35 a.m.

VOLUME 1

BEFORE:

| | |
|----------------|---------------------------------|
| KEN QUESNELLE | Presiding Member and Vice-Chair |
| LYNNE ANDERSON | Member |
| EMAD ELSAYED | Member |

A P P E A R A N C E S

| | |
|--|---|
| JAMES SIDLOFSKY | Board Counsel |
| MARTIN DAVIES KEITH RITCHIE | Board Staff |
| GORDON NETTLETON GEORGE VEGH | Hydro One Networks Inc. (HONI) |
| LISA (ELISABETH) DeMARCO JONATHAN MCGILLIVRAY | Anwaatin Inc., Energy Storage Canada (ESC) |
| SHELLEY GRICE | Association of Major Power Consumers in Ontario (AMPCO) |
| MICHAEL BUONAGURO | Balsam Lake Coalition (BLC) Arbourbrook Estates |
| TOM BRETT | Building Owners and Managers Association, Toronto (BOMA) |
| EMMA BLANCHARD ERIN DURANT SCOTT POLLOCK | Canadian Manufacturers & Exporters (CME) |
| JULIE GIRVAN | Consumers' Council of Canada (CCC) |
| BRADY YAUCH TOM LADANYI | Energy Probe Research Foundation |
| VICTORIA CHAI | Ontario Sustainable Energy Association (OSEA) |
| RICHARD STEPHENSON BODHAN DUMKA | Society of United Professionals |
| MICHAEL McLEOD | Quinte Manufacturers' Association (QMA) |
| JAY SHEPHERD MARK RUBENSTEIN | School Energy Coalition (SEC) |
| RICHARD STEPHENSON | Power Workers' Union (PWU) |

A P P E A R A N C E S

BOHDAN DUMKA

Society of United Professionals
(SUP)

MARK GARNER
BEN SEGEL-BROWN

Vulnerable Energy Consumers'
Coalition (VECC)

ALSO PRESENT:

JODY McEACHERN
STEVEN VETSI

Hydro One Networks Inc.

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1 Monday, June 11, 2018

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

3 MR. QUESNELLE: Good morning, everyone. Please be
4 seated. Good morning. My name is Ken Quesnelle. I will
5 be presiding over the proceeding over the next few weeks.
6 With me are Board members Lynn Anderson and Mr. Emad
7 Elsayed.

8 The Board sits today on the matter of a five-year
9 custom incentive regulation application filed by Hydro One
10 Networks Inc. on March 31st, 2017 under section 78 of the
11 Ontario Energy Board Act. They are seeking approval for
12 changes to the distribution rates to be effective
13 January 1, 2018 to December 31st, 2022.

14 The notice of hearing was issued on May 24th, 2017,
15 and the first six procedural orders were issued -- or the
16 first procedural order issued on August 30th, 2017.

17 The OEB has made determinations on several procedural
18 matters, including the granting of intervenor status, the
19 filing of intervenor and OEB Staff evidence, the manner and
20 scheduling of discovery processes, and the scheduling of
21 this oral hearing.

22 The OEB most recently informed all parties to the
23 proceeding that it will be providing further information on
24 how it intends to proceed with Hydro One's proposals with
25 respect to pole attachments, charges, and that it will not
26 be dealing with that issue within the currently scheduled
27 oral hearing processes.

28 I will take appearances, please.

1 **APPEARANCES :**

2 MR. NETTLETON: Good morning, Mr. Chairman, Panel
3 members. My name is Gordon Nettleton. I am appearing with
4 Mr. George Vegh. We are counsel to Hydro One in this
5 application.

6 MR. QUESNELLE: Mr. Nettleton, Mr. Vegh.

7 MR. BRETT: Good morning, Mr. Chairman, Panel. My
8 name is Tom Brett. I am appearing for the Building Owners
9 and Managers Association in this application.

10 MR. QUESNELLE: Good morning, Mr. Brett.

11 MR. YAUCH: Brady Yauch. I'm here on behalf of Energy
12 Probe Research Foundation.

13 MR. LADANYI: My name is Tom Ladanyi. I am consultant
14 to Energy Probe.

15 MR. QUESNELLE: Good morning.

16 MS. BLANCHARD: Good morning, Emma Blanchard on behalf
17 of Canadian Manufacturers and Exporters, and my colleagues
18 Erin Durant and Scott Pollock will be appearing to cross-
19 examine other panels in this hearing. Thank you.

20 MR. QUESNELLE: Thank you.

21 MR. RUBENSTEIN: Good morning, Mr. Chair. Mark
22 Rubenstein, counsel for the School Energy Coalition. I'd
23 like to put in an appearance for my colleague, Mr. Jay
24 Shepherd, who will be appearing from time to time. I've
25 also been asked to put in an appearance for Ms. Julie
26 Girvan on behalf of Consumers Council of Canada, as well as
27 Michael Buonaguro, on behalf of the Balsam Lake Coalition
28 and the Arbourbrook Estates.

1 MR. QUESNELLE: Thank you very much, Mr. Rubenstein.

2 MR. SEGEL-BROWN: My name is Ben Segel-Brown, and I am
3 appearing on behalf of the Vulnerable Energy Consumers'
4 Coalition. Appearing with me is Mark Garner.

5 MS. GRICE: Good morning. Shelly Grice, representing
6 the Association of Major Power Consumers in Ontario.

7 MR. QUESNELLE: Ms. Grice.

8 MS. DeMARCO: Good morning, Mr. Chair. Lisa DeMarco,
9 and with me is Jonathan McGillivray, appearing on behalf of
10 Anwaatin and the ten First Nation members it represents.

11 MR. QUESNELLE: Good morning.

12 MR. DUMKA: Good morning, Panel. I am Bohdan Dumka.
13 I am representing the Society of United Professionals.
14 Just as an aside, that was the Society of Energy
15 Professionals, and they renamed themselves in March.

16 MR. QUESNELLE: Thank you.

17 MR. STEPHENSON: Good morning, Mr. Chair. My name is
18 Richard Stephenson. I am counsel for the Power Workers'
19 Union.

20 MR. QUESNELLE: Mr. Stephenson.

21 MR. McLEOD: Good morning, Mr. Chair. My name is
22 Michael McLeod. I am with the Quinte Manufacturers'
23 Association.

24 MR. QUESNELLE: Good morning, Mr. McLeod.

25 MS. CHAI: Good morning. My name is Victoria Chai,
26 counsel for the Ontario Sustainable Energy Association.

27 MR. QUESNELLE: Good morning.

28 MR. SIDLOFSKY: And good morning, Mr. Chair. My name

1 is James Sidlofsky, here as counsel to Board Staff. I am
2 here this morning with Martin Davies, the case manager on
3 this file, and Keith Ritchie, another member of Board Staff
4 working on this matter.

5 MR. QUESNELLE: Good morning, Mr. Sidlofsky.

6 [Technical interruption]

7 MR. QUESNELLE: Okay. Thank you. Mr. Nettleton.

8 MR. NETTLETON: Thank you, Mr. Chairman. We do have a
9 few preliminary matters that we would like to address if we
10 could.

11 MR. QUESNELLE: Certainly.

12 **PRELIMINARY MATTERS:**

13 MR. NETTLETON: There were several documents that have
14 been placed on the record that do not have exhibit numbers,
15 and we're hoping that we could have exhibit numbers
16 assigned, and I'll just go through the list, if I could.

17 On April 20th Hydro One filed an updated Willis Towers
18 Watson and Mercer study, and also in that filing we
19 responded to the Board's direction of having certain of the
20 Hydro One transmission rate case exhibits related to
21 compensation also filed as part of the record of this
22 proceeding.

23 It's an 82-page filing, and I'm in your hands in terms
24 of how you might want to have that document marked as an
25 exhibit. One way that I thought was, there seems to be
26 three buckets of documents. There is the Willis Towers
27 Watson report, there is a Mercer report, and then there is
28 all of the 2016-0160 exhibits, and it may be best to have

1 it marked as K1.1-1 or something to that effect, just to
2 delineate between those documents.

3 MR. QUESNELLE: So we will just be relying on the
4 transcript of what the listing that you just provided to
5 identify that, Mr. Nettleton?

6 MR. NETTLETON: Yes, correct.

7 MR. QUESNELLE: Okay. I think that will be fine.
8 Yes, let's do that.

9 **EXHIBIT NO. K1.1: APPLICANT'S UPDATED WILLIS TOWERS**
10 **WATSON AND MERCER STUDY WITH TRANSMISSION RATE CASE**
11 **EXHIBITS**

12 MR. NETTLETON: And secondly, sir, on May 28th Hydro
13 One, through our offices, filed a draft hearing plan and
14 that draft hearing plan contained a breakdown of all of the
15 evidence and the witness panels that will be appearing in
16 this proceeding.

17 Sir, what we intend to do with that plan is -- it will
18 help the witnesses adopt their evidence. And so if we
19 might have that filing marked also as an exhibit in this
20 proceeding as it relates to the hearing.

21 MR. QUESNELLE: So that will be K1.2.

22 **EXHIBIT NO. K1.2: DRAFT HEARING PLAN**

23 MR. NETTLETON: Just for the benefit, sir, of how we
24 are intending to present our case, the first two panels
25 that will be appearing, sir, this week will be the custom
26 incentive ratemaking panel and the financing compensation
27 panels. Those two panels will be assisted by Mr. Vegh.
28 Mr. Vegh is addressing the matters of finance and the IRM

1 methodology, and also the load forecast and rate design.
2 Those are the panels that Mr. Vegh will be here for.

3 I drew the short stick, and I am dealing with the
4 customer engagement and the asset management, the expert
5 panels and the shared services panels. So those are going
6 to be inter-mixed after the first two panels happen.

7 With that, I just wanted to give you that context. I
8 will be coming out -- or leaving today and Mr. Vegh and his
9 team will be kicking in and they will carry on in that
10 fashion, sir.

11 MR. QUESNELLE: Okay, thank you. I understand we also
12 have a bit of a scheduling issue with potentially one
13 member of panel 2; they may not be available until
14 Thursday. So we've had some discussion as to how we might
15 manage that, and it may be best to just see where we're at
16 tomorrow afternoon and determine if we have to do anything
17 to rearrange our scheduling, or whatever.

18 But why don't we just let the day unfold, and then we
19 will know at the end of today or tomorrow whether or not we
20 have to make any determinations on that. Does that sound
21 fair?

22 MR. VEGH: Thank you, Mr. Chair, that's fair.

23 MR. QUESNELLE: If there is nothing else, Mr.
24 Nettleton, I was just going to raise a letter. This is a
25 on a letter that copy to the Board on June 7th, and this is
26 with respect to the regulatory treatment of pensions and
27 other post-employment benefits.

28 It was a filing which was subsequent to the report

1 that went out last September, and there is laying out some
2 options. We just wanted it better understand the context,
3 I suppose, as to how the matter is, in the context of the
4 relief sought in this application before we determine which
5 is the better route to take, those being IRs -- well, the
6 proposals are whether or not IRs be asked on the subject-
7 matter through this proceeding and then perhaps bring a
8 witness at the end of the oral proceeding, or set it is up
9 so it's deferred to a later date.

10 We also want to understand -- I understand there is
11 also some related matters that are being determined on the
12 transmission side that the Board sees as being perhaps one
13 in the same, but if we could understand that better, it
14 would be helpful.

15 MR. VEGH: Thank you, Mr. Chair. Yes, so the letter
16 that was filed and the information that was filed on June
17 7th with respect to the treatment of pensions and Hydro
18 One's request for a departure from the default approach,
19 Hydro One has proposed its -- its approach to the treatment
20 of the pensions and we're in your hands, sir, as to what is
21 the best way to deal with it in this proceeding.

22 We thought the simplest way would be just to address
23 it at the end of the proceeding, and that would give the
24 parties an opportunity the opportunity to review the
25 evidence and ask questions, and that's our proposed
26 approach.

27 MR. QUESNELLE: Is there a relationship with the
28 request here and matters which have been recently

1 determined in the transmission, under the transmission
2 heading for the same subject matter of OPED?

3 MR. VEGH: It is intertwined with some of the issues
4 in the transmission decision, but this has been raised --
5 the Board's direction did arise in the context of
6 distribution rates application.

7 But if where you're going is there is something that
8 can be addressed in the transmission rates application
9 that's coming up, Hydro One believes it can be addressed
10 there as well.

11 MR. QUESNELLE: Okay, thank you, we'll consider it
12 then. Thank you. If there are no other preliminary
13 matters?

14 MR. SIDLOFSKY: Sir, if I could just interrupt? Just
15 before we started, MR. Nettleton handed me copies of a
16 couple of amended interrogatory responses.

17 I'm not sure if Hydro One's plan is to introduce them
18 now just to get them on the record, or later?

19 MR. VEGH: We will have panel 1 speak to those
20 exhibits. We wanted to provide hard copies around, but we
21 will be -- the panel will be referring to those updated
22 exhibits.

23 MR. QUESNELLE: Okay, we will recognize them at that
24 point then. Okay. Thank you.

25 MR. VEGH: Thank you. If there is nothing else, then,
26 I'd like to commence with panel one and I'd ask that they
27 be affirmed.

28 HYDRO ONE NETWORKS INC. - PANEL 1

1 **Chris Lopez**

2 **Frank D'Andrea**

3 **Henry Andre**

4 **Steven Fenrick, Affirmed**

5 MR. VEGH: Thank you. Panel, just for a bit of a
6 roadmap to this introduction, what I planned to do -- what
7 the panel plans to do is first provide a brief introduction
8 of all the panel members.

9 Mr. Fenrick of PSE is offering expert evidence, so I'd
10 like to have him qualified as an expert -- or at least
11 proposed to be qualified as an expert.

12 Mr. D'Andrea will provide a short opening statement
13 for the Panel, and then, as we indicated, there is a
14 correction to the evidence that Mr. Lopez will be speaking
15 to.

16 So, with your leave, I'd like to proceed on that
17 basis.

18 **EXAMINATION-IN-CHIEF BY MR. VEGH:**

19 Good morning, witnesses. You've been affirmed. I
20 just wanted to introduce you to the Board Panel, and I'll
21 be referring to a couple of documents to do that and I'd
22 ask that Ms. McKinnon have them available.

23 I'll be referring to your CVs, which are in the June
24 7th filing by Hydro One. As well, I'll be referring to the
25 hearing plan that was marked Exhibit K1.2 this morning. It
26 is a letter to the OEB from McCarthy Tetrault dated May 28,
27 2018.

28 If we could start with you, Mr. Lopez, and we won't go

1 through your entire CV, just enough to give the Panel an
2 understanding of your current position and your
3 responsibilities in that position.

4 So starting with you, Mr. Lopez, I see that you are
5 currently senior vice president of finance at Hydro One.

6 MR. LOPEZ: That's correct.

7 MR. VEGH: Can you just provide the Panel with a brief
8 explanation of your responsibilities in that position?

9 MR. LOPEZ: I oversee most financial matters day-to-
10 day, treasury, finance, external reporting.

11 MR. VEGH: Thank you. And the other document I'd like
12 to refer to is the hearing plan, which identifies your
13 areas of responsibility in this file. It is marked draft
14 still, but this is the hearing plan.

15 Under the first panel, custom IR, you're identified
16 and then there is a number of application exhibits and
17 interrogatories set out that the -- set out the first two
18 pages of that exhibit.

19 Mr. Lopez, can you confirm that you will be -- that
20 you are adopting this evidence on behalf of Hydro One?

21 MR. LOPEZ: I can confirm.

22 MR. VEGH: Thank you, Mr. Lopez.

23 Turning to you, Mr. D'Andrea, your CV is also at
24 Exhibit A, tab 9, schedule 2. And if we can scroll down
25 just a little bit, you are currently vice-president,
26 regulatory affairs and chief risk officer at Hydro One?

27 MR. D'ANDREA: That's correct.

28 MR. VEGH: Could you please provide the Panel with a

1 bit of a background on your responsibilities in that
2 position?

3 MR. D'ANDREA: I have a dual responsibility. I manage
4 all regulatory affairs as they relate to the Ontario Energy
5 Board. As well, I am the chief risk officer looking at
6 enterprise-wide risks for the company.

7 MR. VEGH: Thank you, sir. And if you could turn to
8 K1.2, the hearing plan, your areas are, I believe,
9 addressed at pages 5 to 8 of that plan. So Mr. D'Andrea,
10 there is pre-filed evidence, interrogatories, and
11 undertakings provided at the technical conference. Do you
12 adopt that evidence on behalf of Hydro One?

13 MR. D'ANDREA: I do.

14 MR. VEGH: Mr. Andre, I will turn to you next. So Mr.
15 Andre, you are currently director of pricing and
16 compliance, regulatory affairs, corporate finance, at Hydro
17 One?

18 MR. ANDRE: Yes, that's correct.

19 MR. VEGH: Could you please provide the Panel with a
20 brief statement of your responsibilities in that position?

21 MR. ANDRE: So I so I oversee the preparation of load
22 forecast for Ontario Hydro -- for Hydro One.

23 MR. QUESNELLE: You've been doing it for a while, I
24 take it.

25 [Laughter]

26 MR. ANDRE: And I also develop -- do the cost
27 allocation and rate design for both the transmission and
28 distribution businesses of Hydro One.

1 MR. VEGH: Thank you. And the hearing plan at pages 8
2 to 9 identifies pre-filed evidence, interrogatories, and
3 undertaking responses that were provided at the technical
4 conference.

5 Do you adopt that evidence -- do you adopt that as
6 part of your evidence?

7 MR. ANDRE: Yes, I do.

8 MR. VEGH: Thank you.

9 So those are the company witnesses, but I'll turn now
10 to Mr. Fenrick, and as I indicated, Hydro One is offering
11 up Mr. Fenrick as an expert in the area of econometric and
12 performance benchmarking and productivity analysis on
13 behalf of Hydro One, so I'll be asking Mr. Fenrick some
14 questions that go to his qualifications to provide that
15 evidence.

16 MR. QUESNELLE: Thank you.

17 MR. VEGH: So Mr. Fenrick, I see we have your CV in
18 front of you. So you are currently the leader of PSE's
19 economics and market research group?

20 MR. FENRICK: Correct, although that title has been
21 modified to director of economics.

22 MR. VEGH: Okay, and I see that, going down your CV,
23 you've provided -- how long have you been with PSE?

24 MR. FENRICK: Since 2009.

25 MR. VEGH: Right. And prior to that you were employed
26 by the Pacific Economics Group. That's from 2001 to 2009?

27 MR. FENRICK: That's correct.

28 MR. VEGH: And at page 2 of your CV you outline your

1 education: Bachelor of Science, Master of Science, at
2 University of Wisconsin. I'll also ask: I also understand
3 that you have authored various publications and papers in
4 the area of utility performance and benchmarking?

5 MR. FENRICK: That's correct.

6 MR. VEGH: And those are identified in your CV, and if
7 we can go down to page 3 of your CV. I understand that --
8 so I'm looking under "expert witness experience". We have
9 given expert evidence in a number of regulatory
10 proceedings, including, I believe, three proceedings before
11 this Board where you were qualified as an expert?

12 MR. FENRICK: Yes, that's true.

13 MR. VEGH: And two of them were custom incentive
14 regulation applications? That's for Hydro Ottawa and
15 Toronto Hydro?

16 MR. FENRICK: Correct.

17 MR. VEGH: And finally going down to pages 4 to 8, you
18 list a number of major research projects on utility
19 performance and benchmarking; is that right?

20 MR. FENRICK: That's right.

21 MR. VEGH: Panel I would ask that Mr. Fenrick be
22 qualified as an expert in the area of utility econometric
23 and performance benchmarking and productivity analysis.

24 MR. QUESNELLE: Okay, thank you, Mr. Vegh.

25 Any submissions on that point?

26 The Panel will accept the witness as an expert, Mr.
27 Vegh.

28 MR. VEGH: Okay. And thank you, Mr. Chair, and just

1 to refer to the evidence that Mr. Fenrick has filed, and
2 I'm sure he will be taken to it in his cross-examination,
3 but for the benefit of the Panel it's at Exhibit A, tab 3,
4 schedule 2, as well as an update to that evidence at
5 Exhibit A, tab 3, schedule 2, attachment 2.

6 MR. QUESNELLE: Thank you.

7 MR. VEGH: Thank you. I have no further -- oh, and so
8 as I say, the next steps will be Mr. D'Andrea will provide
9 a brief opening statement for the Panel and then Mr. Lopez
10 will provide the correction to the evidence that we
11 discussed in the preliminary matters.

12 Mr. D'Andrea, I would ask you to proceed.

13 **OPENING STATEMENT BY MR. D'ANDREA:**

14 MR. D'ANDREA: Good morning. My name is Frank
15 D'Andrea, and I am vice-president of regulatory affairs and
16 the chief risk officer for Hydro One. I am pleased to
17 provide a brief overview of our distribution rates
18 application for the period 2018 to 2022. We have put forth
19 a proposal that we believe balances the needs of our
20 customers in regard to rate levels, provides adequate
21 resources to support the investments required to maintain a
22 safe and reliable system, and incents productivity.

23 My colleagues on the asset management planning and
24 work execution panel will be pleased to answer any
25 questions on the distribution system plan that supports
26 these investments.

27 We have put together a plan that meets the principles
28 of forming the OEB's expectations in the renewed regulatory

1 framework for electricity and its handbook for utility rate
2 applications.

3 Specifically, our application is aligned with the
4 principles in the handbook's option for a custom incentive
5 regulation framework and includes a five-year term, an
6 index for the annual adjustment, benchmarking, performance
7 metrics, productivity enhancements, and mechanisms to
8 protect consumers.

9 The index for the annual adjustment which we have
10 proposed is a revenue cap index that is based on incentive
11 regulation plan approved in Toronto Hydro's most recent
12 custom incentive regulation application, specifically EB-
13 2014-0016.

14 The first year of the five-year custom IR is
15 determined using a cost-of-service approach. However, even
16 here the costs included in the 2018 rebasing have
17 incorporated productivity savings of 63.5 million when
18 compared to business as usual. The productivity savings
19 will be addressed by my colleague Chris Lopez, to my right.

20 The revenue requirement in each year in the following
21 four years, that is, 2019 to 2022 inclusive, is determined
22 using the revenue cap index. The revenue cap index
23 includes a industry-specific inflation factor which is set
24 out by the OEB and two custom productivity factors; namely,
25 zero percent custom industry total factor productivity
26 measure and 0.5 percent custom productivity stretch factor.

27 These productivity factors are supported by the work
28 of Power Systems Engineering, who are engaged by Hydro One

1 to conduct a study of total factor productivity for the
2 Hydro One distribution in the Ontario industry as well as a
3 custom econometric benchmarking study of Hydro One's total
4 distribution costs in order to recommend a custom
5 productivity stretch factor.

6 These productivity factors are supported by the report
7 of the OEB's consultant, Pacific Economics Group, who agree
8 that the proposed custom industry total factor productivity
9 measure and the proposed Hydro One stretch factor and
10 therefore the resulting proposed productivity X factor is
11 reasonable.

12 The revenue cap index also includes a custom capital
13 factor, which is designed to ensure that the total revenue
14 resulting from the custom IR is able to meet Hydro One's
15 specific circumstances as set out in Hydro One's
16 distribution system plan.

17 The custom capital factor includes a 0.5 percent
18 stretch factor and is similar to that approved by the OEB
19 in Toronto Hydro's EB-2014-0016 application. Moreover, we
20 propose a capital in-service variance account to ensure
21 that ratepayers only pay for capital additions that are
22 brought into service.

23 We also propose an earnings sharing mechanism which
24 will share with customers 50 percent of the earnings that
25 exceed the OEB allowed regulatory ROE by more than 100
26 basis points in any year of the application term.

27 As noted, Hydro One proposes a revenue cap index
28 rather than a price cap index. One of the reasons for the

1 selection is that it better allows us to proceed with the
2 rate integration of the three local distribution companies
3 that Hydro One has recently acquired -- namely, Norfolk
4 Hydro, Haldimand County Hydro, and Woodstock Hydro -- and
5 the OEB's requirement these rates be based on the costs of
6 servicing those utilities in 2021.

7 For the same year, we also proposed to update the load
8 forecast and the cost-of-capital parameters in order to
9 ensure that the cost allocated to the required utilities
10 accurately reflect the cost to serve them, and to ensure
11 fairness in cost allocation between those rate classes at
12 that time the newly-acquired customer base is integrated
13 from a rates perspective.

14 My colleague, Henry Andre to my left, will address
15 questions required in the acquired utilities and their
16 integration. I would note that Mr. Andre, who is director
17 of pricing and load forecasting in Hydro One, will also be
18 on the load forecasting and rate design panel and on that
19 panel, he will address rate matter setting for the acquired
20 utilities.

21 So on this panel in particular, Mr. Andre will address
22 integration of the acquired utilities and the associated
23 updates to set rates in 2021. And on an the on the later
24 panel in which Mr. Andre will also participate, he will
25 address cost allocation and rate design for Hydro One
26 overall, including the cost allocation and rate design for
27 the acquired utilities.

28 In regard to Hydro One's acquisition of Norfolk, the

1 OEB approved a five-year rebasing deferred period in order
2 to proceed with the rate integration of all three acquired
3 utilities at the same time for this application. Hydro One
4 will keep Norfolk rates frozen for an additional six years
5 since the acquisition, and I can confirm that Hydro One
6 will be recording the amounts associated with these
7 efficiency savings that are forecasted to accrue in the
8 sixth year in a deferral and variance account for
9 reimbursement to ratepayers.

10 Calculations in this regard will be set out in the
11 draft rate order.

12 Finally, Hydro One advises that it will be lowering
13 its proposed revenue requirement to reflect the impact of
14 the Fair Hydro Plan on cash working capital and a reduction
15 to OM&A by 2.9 million, as a result of lower bad debt
16 expense as set out in the interrogatory response at exhibit
17 I, tab 33, Staff 179.

18 We are also not asking for a cost recovery of \$25,000
19 in customer service guarantee costs referred to in
20 Exhibit I, tab 2, schedule Staff-2. Thank you.

21 MR. QUESNELLE: Thank you.

22 MR. VEGH: Thank you, Mr. D'Andrea. As I've
23 mentioned, I would ask Mr. Lopez to address the updated and
24 corrected evidence that was discussed this morning. So Mr.
25 Lopez?

26 MR. QUESNELLE: They are linked together, so...

27 MR. LOPEZ: Thank you. I have two corrections. The
28 first one is I-38-SEC70, and here 2018 OM&A figures have

1 been corrected to reflect Exhibit Q OM&A numbers.

2 The second correction, exhibit I-24 SEC 38; system
3 capacity reinforcement projects are divided between OEB
4 categories of general plant and system service.

5 We discovered that a handful of systems capacity
6 reinforcement projects were incorrectly met between these
7 categories. We have corrected the mapping in tables 54 to
8 57 of the DSP provided in exhibit I-24 SEC 38.

9 We also took the opportunity to reflect changes
10 described in Exhibit Q, and updated the OA forecast
11 reflected in I.38 SEC 70.

12 Thank you.

13 MR. VEGH: Thank you, Mr. Lopez. And just for the
14 benefit of the Panel and the parties, the actual evidence
15 on the details of these corrections will be addressed in
16 subsequent panels, the panels dealing with asset management
17 planning and work execution, as well as the shared services
18 panel. But we wanted to provide this correction at the
19 update -- at the outset of the hearing, so that there is an
20 opportunity for the parties to read it, to understand it
21 and prepare for any questions that they might have of
22 subsequent panels on that.

23 MR. QUESNELLE: So can we mark the package of
24 corrections as one exhibit, Mr. Vegh? Would that work?

25 MR. VEGH: Thank you, yes.

26 MR. SIDLOFSKY: That will be K1.3.

27 **EXHIBIT NO. K1.3: EVIDENCE CORRECTIONS PRESENTED BY**

28 **MR. LOPEZ**

1 MR. VEGH: Thank you, Mr. Chair. I have no more
2 questions for the panel.

3 MR. QUESNELLE: Thank you. Mr. Ladanyi?

4 **CROSS-EXAMINATION BY MR. LADANYI:**

5 MR. LADANYI: Good morning, panel. My name is Tom
6 Ladanyi; I am consultant to Energy Probe. I think we met
7 each other at the technical conference a couple of months
8 ago.

9 So the areas that I would like to cover are basically
10 the differences between price cap and revenue cap, and
11 exploring the reasons why you chose the revenue cap over
12 price cap, or any other methodology. If we can -- we filed
13 a fairly large compendium last week, and it's on the OEB's
14 website, and Board Panel members have a paper copy. Do you
15 have a copy of our compendium, by the way?

16 MR. ANDRE: Yes, we do.

17 MR. LADANYI: And you have had a chance to look
18 through it?

19 MR. ANDRE: Yes, over the weekend I did.

20 MR. LADANYI: Okay, thank you. If you can turn to
21 page 2...

22 MR. QUESNELLE: Mark it first.

23 MR. SIDLOFSKY: If we could just mark that as an
24 exhibit. That will be Exhibit K1.4.

25 **EXHIBIT NO. K1.4: CROSS-EXAMINATION COMPENDIUM OF**
26 **ENERGY PROBE FOR PANEL 1**

27 MR. LADANYI: Yes, K1.4, thank you. Could you turn to
28 page 2? That's your evidence, and I hope I have the right

1 evidence, but I don't have the -- because you've updated
2 since then, so I am not sure if I've got every page right,
3 but I believe this page has remained unchanged in the
4 update.

5 So specifically, you are asking for a revenue cap and
6 in past proceedings before this Board, there was a fair
7 amount of confusion about what is a price cap and what is a
8 revenue cap. And really, I think it would be very useful
9 for everybody to understand what a revenue cap is. And a
10 really good place to start would be Staff 21, which is on
11 page 38 of our compendium. If you could turn to that,
12 please.

13 So on page 38, there is actually a reference that
14 Staff provides and they are providing, sort of three-
15 quarters down the page, the standard revenue cap formula.

16 The revenue cap formula -- do you have it there? Very
17 good. The revenue cap formula takes revenue requirement
18 from year T minus 1, and multiplies it by a revenue cap
19 index that includes 1 plus inflation, minus productivity,
20 plus growth to arrive at revenue requirement in year T.
21 You agree with that, don't you?

22 MS. ANDERSON: Yes, we do.

23 MR. LADYANI: In your proposal, you are more or less
24 doing the same, except you do not have the item or the
25 factor G, which is growth in that formula. What do you
26 have instead?

27 MR. ANDRE: Our capital requirements as identified in
28 the application include those requirements associated with

1 the growth in our customer base and in our load. So our
2 capital requirements already include growth. And then on
3 OMA, the customer company has rebased in 2018 and then we
4 are applying the index, the I minus X index, for beyond the
5 '18 period. So we are not allowing for any growth in OMA
6 as associated with growth in customer base and load.

7 MR. LADYANI: To arrive at the rate that the customers
8 would be paying, one would then divide the revenue
9 requirement by the billing determinants; is that right?

10 MR. ANDRE: Yes. So under a revenue cap, that index
11 defines the revenue to be collected and then, you're
12 correct, for the purpose of setting rates we would then
13 divide that revenue in a given year by the billing
14 determinants that fall out of the load forecast that we've
15 provided in the evidence.

16 MR. LADYANI: And the billing determinants would then
17 change every year, is that right?

18 MR. ANDRE: Yes. So we filed a five-year forecast in
19 the application, and we're committing to that forecast now.
20 So it will change every year per the forecast as provided
21 in the application.

22 MR. LADYANI: And that forecast will remain fixed
23 until 2021, when you are going to update the billing
24 determinants? Is that correct? I just heard Mr. D'Andrea
25 say that.

26 MR. D'ANDREA: Yes, that is correct, at the time that
27 we integrate the acquired utilities.

28 MR. LADYANI: So again coming back to the standard

1 formula for the revenue cap, in actual fact the growth
2 that's in that formula is actually provided by two factors.
3 Your capital factor plus the billing determinants is
4 actually what is standing-in for the G in that formula?

5 MR. ANDRE: Right. So I think that's important
6 because growth is used -- that word is used in a number of
7 IR responses, and I think it is really important to
8 understand there are two aspects to growth.

9 So there is the extent to which growth impacts the
10 revenue that you need, the revenue requirement that you
11 need to run your business. So as you have more output,
12 more customers, presumably you need additional costs to
13 serve those customers, so that's one aspect of growth, but
14 then there is also the extent to which your customer base
15 and your consumption is increasing, and that growth will
16 impact the calculation of rates that you set for a given
17 year.

18 So there is two components to growth, and I would
19 argue that in this formula that you see in this IR response
20 it is dealing with the first one. It is dealing with the
21 extent to which growth could impact the revenue requirement
22 that you need to run your business.

23 MR. LADANYI: Thank you very much.

24 So let's go back to page 2 of our compendium, please.
25 So halfway down the page you are referring to the Toronto
26 Hydro decision, or case, EB-2014-0016, as you say it.
27 Could you for a moment also -- I checked that reference, by
28 the way. I was puzzled by it. So could you check -- go to

1 page 31 of our compendium.

2 Can you see what case that is, actually? That case
3 seems to be a Direct Energy application for a gas marketer
4 licence. So that's an error, actually, isn't it? And a
5 mistake, a typo, in your evidence?

6 MR. ANDRE: The intent was to refer to the Toronto
7 Hydro decision.

8 MR. LADANYI: Which is on the next page, page 32.
9 Could you turn that over? Which is actually EB-2014-0116?

10 MR. ANDRE: So you are correct, the reference is
11 incorrect in the IR response. It should refer to 0116 and
12 not 0016.

13 MR. LADANYI: I'm sorry to say that is actually --
14 that reference -- the wrong reference is given in a number
15 of interrogatory responses, so I expect you are going to
16 correct that at some point.

17 MR. ANDRE: I think we are correcting it here, so any
18 reference to the Toronto Hydro decision should refer to EB-
19 2014-0116.

20 MR. LADANYI: Thank you. So on that same page too you
21 are listing a number of advantages of the price cap, of
22 revenue cap over price cap, and specifically referring to
23 the need for flexibility. And by the way, if you want, you
24 can also refer to your response to VECC number 3, which is
25 on page 37 of our compendium. So could you explain to me
26 what does the word "flexibility" in that context mean?

27 MR. ANDRE: So the Toronto Hydro decision was a price
28 cap, so the index that they developed is intended to apply

1 to the prices established in the prior year, the rates that
2 have been established in the prior year.

3 In Hydro One's case, as Mr. D'Andrea said, in 2021
4 we'll be integrating three -- those three acquired
5 utilities. We are proposing to create six new rate classes
6 to accommodate those utilities and ensure that the cost to
7 serve those utilities are reflected in the rates
8 established for those six new classes, and so you don't
9 have -- a price cap would require that you have rates in
10 2021 which could then be adjusted for -- sorry, in 2020
11 which could be then adjusted for 2021, and so a price cap
12 isn't well-suited for dealing with the situation where
13 you're rebasing, creating new classes, because you do not
14 have prices in the prior year to which to apply the price
15 cap index.

16 MR. LADANYI: So if I understand you correctly, the
17 word "flexibility" really means ease of arithmetic? Is
18 that what it is?

19 MR. ANDRE: The -- yeah, and I appreciate that the
20 response -- and you have taken me to -- you pointed out to
21 VECC 3, and I think that is probably the most comprehensive
22 response in terms of the rationale for the resetting of
23 rates in 2021 and the price cap versus revenue cap
24 arguments, and so in that response to VECC 3 it does refer
25 to more easily and more transparently, but I would suggest,
26 and I'm saying to the Board now, that from a cost
27 allocation and rates perspective it almost goes beyond
28 easily and transparently. There is a need to have rates in

1 the prior year to apply a price cap, and that simply
2 doesn't exist in 2021 when we create these new rate
3 classes. Just give me a second.

4 Yes, Mr. D'Andrea has pointed out that in the response
5 to interrogatory CME 1 we actually use the words that it's
6 difficult to update the billing determinants to accommodate
7 those new rate classes in 2021.

8 Again, we are establishing new rate classes, we are
9 rerunning the cost allocation and determining how much of
10 the revenue requirement should go to Hydro One's existing
11 legacy classes, how much of the revenue requirement should
12 be collected from the new rate classes, and therefore you
13 need -- you can't -- your starting point is the revenue
14 that needs to be collected from all of these classes.

15 The starting point is not the rates that exist for
16 those new classes, because they didn't exist in 2020, so
17 there is nothing to escalate per the index, per price cap
18 index --

19 MR. LADANYI: Again, I'm trying to understand what
20 you're saying. You're saying that by doing what you're
21 doing you're avoiding perhaps two or three calculations,
22 because you could have done those calculations from a price
23 cap. You are not really prevented by price cap in any way
24 from integrating these utilities?

25 MR. ANDRE: No, I disagree. I haven't -- I thought
26 about it when I saw this response. I don't see how a price
27 cap could be implemented in the context of creating new
28 classes, rebasing your costs for those classes, and

1 establishing new rates in 2021.

2 There are no rates in 2020 to which a price cap index
3 could be applied for those six new rate classes that are
4 being created. And in fact, not only for those six new
5 rate classes, the rates for the other classes that were
6 established in 2021 are being reset in 2020 -- sorry. Let
7 me slow down. The rates that were established for Hydro
8 One's other classes in 2020, in 2021 they also get reset
9 per the cost allocation, you know, to reflect the fact that
10 a certain amount of the cost will now be collected from
11 those six new rate classes to serve the acquired classes.

12 So in 2020 there are no rates for the new acquired
13 classes, and the rates that exist for the legacy classes
14 are not well-suited and, in fact, I'm not even sure how you
15 would do that in terms of re-establishing those rates in
16 2021 under a price cap index.

17 MR. LADANYI: We might follow up this when you would
18 be up here on the rate design panel.

19 MR. ANDRE: Absolutely.

20 MR. LADANYI: So let's go to another bullet on that
21 page. It says "permits the continued transition to fully
22 fix rates for residential customers", so there are other
23 utilities in Ontario that are moving to fully fix rates.
24 And they must be facing the same difficulties. They are
25 not asking for a revenue cap; can you explain how -- so
26 this is going to be easier for you than for the other
27 distributors in Ontario; is that right?

28 MR. ANDRE: Yeah, so again, I think if we could go to

1 the interrogatory response I7 VECC 3.

2 MR. LADANYI: Yes.

3 MR. ANDRE: Which you have in your compendium. I just
4 want to bring that up, because I do want to clarify that.
5 In the response to part A, the last paragraph, we say there
6 that both the price cap and revenue cap are equally capable
7 of continuing the transition to fully fixed residential
8 rates. So in the evidence we just wanted to indicate that
9 the revenue cap can accommodate it, but we are not
10 suggesting that when it comes to the transition to fully
11 fixed residential rates, we agree that both a price cap and
12 a revenue cap can accommodate that change.

13 MR. LADANYI: Very good.

14 Okay, let's go down to another one. So:
15 "Provides adequate flexibility to reset customer rates
16 should the OEB proceed with elimination of seasonal rate
17 class."

18 So adequate flexibility there, what does that mean?
19 Again, it's an IESO calculation. Is that what you're
20 talking about?

21 MR. ANDRE: Yes, so again, with respect to the
22 elimination of the seasonal class, we are back to that same
23 issue where you would have to -- if the seasonal class is
24 eliminated, you then have to rebalance or redo the cost
25 allocation to determine the rates that would need to be
26 collected from the other classes, the seasonal class
27 disappears, so you are resetting the rates, and when you
28 are resetting the rates and redoing the cost allocation, a

1 price cap, which would simply have taken the rates that
2 existed and escalated them per the index, a price cap
3 doesn't accommodate as well.

4 So again, we use the word "flexibility". I think when
5 it comes to new classes or changed cost allocation it's
6 prob -- "flexibility" is probably too weak a word. It
7 probably should have said that it -- it actually can't
8 accommodate, or at least I can't see how you could
9 accommodate a price cap index to rates that didn't exist in
10 the prior year.

11 MR. QUESNELLE: Mr. Vegh, just through Mr. Andre, Mr.
12 Andre, perhaps it was just a bit of a -- you misspoke, but
13 you suggested that should the OEB proceed with the
14 elimination of the seasonal class. I just want to make it
15 clear that that's not an issue that is being determined.
16 It has been determined. The OEB has eliminated the
17 seasonal class. So I didn't want it to be left in the air
18 that that was a yet-to-be-determined matter.

19 MR. ANDRE: Yes, Mr. Quesnelle, I apologize. I meant
20 to say how that is done, because I think the how part is
21 still to be determined.

22 MR. QUESNELLE: Understood. Thank you very much.

23 MR. LADANYI: To the last bullet on that page:

24 "Provide adequate flexibility to reset customer
25 rates as OEB advances its initiative to determine
26 rate design for commercial and industrial
27 customers."

28 So my question to you is: Isn't that the problem that

1 all of the distributors will be facing, not just you?

2 MR. ANDRE: The Board has a consultation underway to
3 determine potential changes to commercial and industrial
4 rates. We're waiting to see what the outcome of that
5 consultation is.

6 I agree with you; it depends on what the outcome is.
7 If it involves creating new classes, if it involves
8 potentially rerunning cost allocation across new classes,
9 that one -- it's uncertain what the outcome of that
10 consultation will be. But if it did involve, as I said,
11 rerunning the cost allocation and creating new rates for
12 new classes, then you have the same issue.

13 MR. LADANYI: Thank you. So could you turn to page 3
14 of our compendium, please?

15 In the middle of the page, you talk about -- you say:

16 "Although specifically created for use for
17 incentive rate-setting using the price cap IR and
18 annual index plans, Hydro One proposes to use the
19 same inflation factor in its customer revenue
20 cap."

21 So I don't know if this is a question for Dr. Fenrick
22 or is it a question for you, but perhaps you can explain
23 why you can use the same inflation factor.

24 By the way, we also on the next page, page 4, we ask
25 more or less the same question in our Interrogatory No. 5.

26 MR. D'ANDREA: I'll let Mr. Fenrick speak to the
27 specifics of it, but what we are saying in our response is
28 that we're agnostic, because the inflation factor is not

1 set by us and it is independent of whether it is a price
2 cap or revenue cap model.

3 MR. FENRICK: If I could just add to that? When
4 designing a price cap index or a revenue cap index, that
5 inflation factor is really meant to capture the industry
6 input price inflation, and that should be identical between
7 the revenue cap or a price cap index.

8 MR. LADANYI: Could you turn for a moment, Dr.
9 Fenrick, to page 20 of our compendium? Do you have that?

10 Again, you could -- I could be wrong here, but my
11 impression here is that what the Board says here that for
12 fourth-generation IRM, the utilities are to use the
13 composite index, which you are proposing to use. But
14 however, you have a custom IR, and here they talk about a
15 distributor-specific calculation, and again the composite
16 index for the annual IR index column.

17 So can you again explain how you interpret this page,
18 and do you feel it's appropriate not to have calculated
19 your stand-alone distributor-specific inflation index?

20 MR. FENRICK: I think in the fourth-generation IR, and
21 I was a part of that proceeding, the inflation factor was
22 meant to be an industry input price inflation measure, and
23 that was an appropriate measure in this case as well for
24 the revenue cap index.

25 MR. LADANYI: Thank you. So further down on that
26 page, on page 3, so the inflation factor will be updated
27 annually by the Board being able to just use that number,
28 is that right? Is that what it says?

1 MS. McKinnon: Sorry, on which page?

2 MR. LADANYI: We are on page 3 of the compendium.

3 MR. D'ANDREA: Yes, that's correct.

4 MR. LADANYI: Okay. So let's turn to page 5 of the
5 compendium. Here you discuss -- and this is again your
6 evidence and you are discussing the capital factor.

7 My only question on that page is, in the last
8 paragraph, and that's with the exception of the applied-for
9 cost-of-capital update in 2021. So the only update of cost
10 of capital would all be for 2021, is that right, and the
11 rest will remain fixed?

12 MR. D'ANDREA: That's correct, when we integrate the
13 acquired utilities.

14 MR. LADANYI: Okay. Can you turn next to page 6 of
15 the compendium?

16 So in this spreadsheet, what is -- by the way, can you
17 explain to me what you are trying to show us with the
18 spreadsheet or this table, table 1?

19 MR. D'ANDREA: So this is basically how the revenue
20 cap model will work. So 2018 is your cost of service and
21 in 2019, you have two elements going on.

22 One is the I minus X being applied to the OMA and then
23 there is the capital factor, which is embedded in that
24 formula. And if you take the capital factor that is
25 embedded in that formula -- and if you scroll down, there
26 should be a table there that shows you how it works when
27 you take those factors. So that's your total, the index in
28 total. So 3.41 for 2019, and if you scroll down to the

1 bottom of that page -- the next page, sorry -- you can see
2 how the formula works.

3 So you would take the 2018 revenue requirement and
4 multiply it by the factor that's computed, and 2019 is the
5 exact same thing. So the capital factor is part of that
6 annual index.

7 MR. LADANYI: Thank you. If you go back to page 6,
8 table 1, explain to me -- so about the methodology used for
9 integrating the productivity factor into your calculation
10 of the capital factor, particularly, as I understand it,
11 there is no existing OEB-approved methodology for
12 calculating a capital factor.

13 So this is your proposal, isn't it? You are not
14 following anything that the Board has approved in the
15 calculation of capital factors?

16 MR. D'ANDREA: The capital factor is similar to what
17 Toronto Hydro did in it their application.

18 MR. LADANYI: Yes, but Toronto Hydro was a price cap.
19 You will have to agree with me. We will get to that in a
20 little while.

21 MR. D'ANDREA: That's correct.

22 MR. LADANYI: This is a revenue cap and as I see it
23 here, you have applied a productivity factor of 0.45
24 percent, which is again your proposed proper factor, isn't
25 it? That's not what you would have got otherwise? You
26 would have otherwise had 0.6, isn't that right?

27 MR. D'ANDREA: The 0.45 is what our proposal is, and
28 it's supported by our studies.

1 MR. LADANYI: Right, okay. So I was wondering why
2 would you apply this productivity factor, for example, on
3 line 7. Why not apply it to the entire capital factor at
4 the bottom?

5 It seems like -- at line 7, it seems to have a very,
6 very small effect on the capital factor.

7 MR. D'ANDREA: So the -- I mean, the application of
8 the productivity factor is similar to what happened in
9 Toronto Hydro's case, where you applied on the capital.

10 There is natural increase in capital-related revenue
11 requirements just because of the IRM formula. So the -- we
12 see on line 14 that is to reduce that amount of capital
13 requirement, so you are not double counting it. And then
14 0.45 is the stretch factor applied to capital just as it is
15 applied to OM&A.

16 MR. FENRICK: If I could, could I just jump in for a
17 second? I believe he have in the fourth-generation IR
18 benchmarking update, the last update that came out, the
19 0.45 percent was the finding in that latest report. It
20 wasn't the 0.6 percent, but the 0.45 percent, I believe.

21 MR. LADANYI: Could you turn to for a second, just for
22 a little while, to page 21 -- sorry, 29 of our compendium,
23 which is your response to BOMA number 144?

24 In here, you are basically referring to Toronto Hydro
25 and saying that the Board said that the stretch factor
26 should apply to both capital and OM&A.

27 So, your proposal on page 6 of our compendium, on
28 table 1 shows how you would apply it to capital; is that

1 right? And you are going to apply to OM&A elsewhere?

2 MR. D'ANDREA: That's correct.

3 MR. LADANYI: So since Dr. Fenrick just mentioned the
4 factors .6 and .45, could you turn to page 52 of my
5 compendium, please? Okay. And there you are -- in the
6 middle of the page you are explaining what you are doing.
7 This is an updated forecast, is that right, that you have
8 prepared, that justifies, you believe, changing the stretch
9 factor from 0.6 to 0.45?

10 MR. D'ANDREA: That's correct.

11 MR. FENRICK: That's right.

12 MR. LADANYI: And if you turn to the next page, page
13 53, and -- which is your response to Board Staff 22, as I
14 read that interrogatory, Board Staff is more or less
15 challenging what you're doing because really you would have
16 had to do a calculation of our benchmark all of the
17 utilities to actually find where Hydro One's ranking would
18 be, in which group it would be. You just moved it as if
19 all of the other distributors had remained static and Hydro
20 One changed, but perhaps in the intervening period the
21 other distributors have become more productive, so it might
22 not justify moving the cohorts, moving, let's say, Hydro
23 One to a different cohort. And by the way, if you want to
24 review where they are, it is on page 56 of the compendium.

25 So Hydro One is in group 5, and you are saying your
26 new information justifies moving Hydro One to group 4; is
27 that right?

28 MR. FENRICK: I believe this is from the 2014 stretch

1 factor assignments. I believe the latest assignments that
2 came out from Pacific Economics Group moved Hydro One to
3 group 4 to be the 0.45 percent, which also aligns with our
4 most recent research, as well as PEG's research in this
5 case.

6 MR. LADANYI: So when did these new assignments come
7 out?

8 MR. FENRICK: At some point in 2017, I believe it was.

9 MR. LADANYI: Okay, could you actually file that,
10 please, as an undertaking?

11 MR. VEGH: Just so I'm clear, so what's the request
12 for the undertaking?

13 MR. LADANYI: Well, we would like to see this
14 document. I'm sorry. Obviously I have the wrong reference
15 here. I am on page 56. I'd like to see what the correct
16 one is.

17 MR. VEGH: So it is the 2017 stretch factor
18 assignments?

19 MR. LADANYI: That's right.

20 MR. D'ANDREA: We can do that.

21 MR. VEGH: Yes, we can do that. It is on the OEB's
22 website.

23 MR. SIDLOFSKY: That will be Undertaking J1.1.

24 **UNDERTAKING NO. J1.1: TO PROVIDE THE 2017 STRETCH**
25 **FACTOR ASSIGNMENTS.**

26 MR. LADANYI: Okay. And specifically, did you make
27 the change before the Board issued the new stretch factor
28 assignments or after?

1 MR. FENRICK: I believe -- it's been a while, but I
2 believe our report came out before, prior to the 2017
3 stretch factor update, so at the time when we filed our
4 report I believe it was 0.6 percent, and then subsequently
5 to that was the 0.45 percent that the Ontario Energy Board
6 fourth-generation update came out and said that group 4
7 would be the appropriate group.

8 MR. LADANYI: Okay, thank you.

9 Let's go to page 7 of our compendium, please. So here
10 on table 2 you are showing what the total customer revenue
11 cap index is by the amount by which you are increasing your
12 revenue requirement in each one of the years, and the
13 numbers as I see are 3.41 for 2019, 3.28 for 2020, and so
14 on.

15 So these numbers are fairly large increases, and they
16 appear to be significantly higher than the inflation for
17 those years. And it's largely driven by your capital
18 factor, as I can see there; would that be right?

19 MR. D'ANDREA: Just to contextualize, you have got the
20 inflation factor there. I think the inflation factor has
21 now been updated. But it is inflation less the
22 productivity.

23 What you referred to as large, I wouldn't call it
24 large, is what is driving in the capital factor, and
25 capital factor again includes the growth component, and
26 this is necessary for us to go with a revenue cap model
27 because it meets our needs -- our investment needs of our
28 system.

1 MR. LADANYI: And just to come back to something that
2 we talked about a few minutes ago, it is partially driven,
3 also, isn't it, by load, essentially the load growth? Load
4 growth is not increasing as quickly, and what you are
5 dividing is large revenue requirement by essentially not as
6 quickly increasing load.

7 MR. ANDRE: So the capital factor reflects the capital
8 investments that are detailed in our distribution system
9 plan and, you know, it's those investments are driven by
10 the need to provide safe and reliable distribution system,
11 so -- and they're fully detailed in the distribution system
12 plan, and panel 4 will be here to defend that.

13 So what you're seeing there is the need for the
14 capital spend, and that capital spend, you are correct,
15 would include -- so to the extent that we anticipate
16 needing to expand the system to accommodate growth, then
17 that would be included in the capital forecast that we've
18 submitted as part of our distribution system plan for the
19 five years.

20 So you're right, it does include growth, but more
21 importantly, it includes a careful assessment of the
22 capital that we need to spend in order to deliver the
23 outcomes of the R -- renewed regulatory framework.

24 MR. LADANYI: Very good. So on page 8 of our
25 compendium are the revenue requirements that result from
26 your calculation.

27 MR. ANDRE: Yes, and just a small note. There is a
28 typo in 2019. It says that the 2019 revenue requirement

1 would be 2018 times 1.0336. It should have said 1.0341,
2 consistent with the table 2 on the previous page. So a
3 small typo, but the revenue requirement amount is correct,
4 five --

5 MR. LADANYI: The number is correct, 1-billion-551.0
6 is correct?

7 MR. ANDRE: That's correct.

8 MR. LADANYI: So if you could turn to page 9 next. So
9 I thought it would be worthwhile to go back to basic
10 differences between the revenue cap and price cap, and 20
11 years ago when Ontario Energy Board first started
12 regulating or was preparing to regulate distributors in
13 Ontario, I think at that time there were about 300
14 distributors in Ontario, and it was looking at the ways
15 that it could efficiently and practically regulate those
16 distributors. It convened a number of task forces or
17 committees, and one of them was the cap mechanism task
18 force. Somebody who had been around this industry for a
19 while will remember that. Do you remember that, Mr. Andre?

20 MR. ANDRE: No, I wasn't involved in this business or
21 this part of the business at that time.

22 MR. LADANYI: Very good. So if you turn to page 3 of
23 the -- sorry, page 10 of the compendium. And here it just
24 shows the rate regulation methodology that cap mechanisms,
25 you can either have a price cap or a revenue cap, and
26 they're also looking at other ways of regulation,
27 benchmarking and so on, but that doesn't -- shouldn't
28 concern us right now.

1 So then could you go also next to page 11 of the
2 compendium. And there the committee or the task force
3 described the price cap mechanism, and it says:

4 "The price cap mechanism provides an upper limit
5 or cap to the price, or basket of prices."

6 So that appears to be an advantage of price cap, and
7 would you agree with me that the revenue cap does not
8 actually provide an upper limit or a cap to the rates that
9 the customers are charged, whereas the price cap does.

10 MR. ANDRE: No, I would disagree with that. The
11 revenue cap defines the revenue to be collected, and then
12 the prices are capped at that revenue -- are capped to
13 deliver on that revenue, taking into account the change in
14 load that the utility is going to see in the subsequent
15 year.

16 So, you know, and I would -- you know, you correctly
17 pointed out that this was a 1999 report probably input into
18 the first generation IRM models that the Board developed.

19 Since then, they've gone to second, third and now
20 fourth-generation IRM. They've introduced a custom IR
21 option. So, you know, this is likely a more theoretical
22 discussion and I would note that in that same sentence you
23 pointed me to, it says: "The price cap mechanism provides
24 an upper limit or cap to the price, or basket of prices,
25 charged by an LDC," and then it says, "and allows
26 flexibility below the cap," seeming to suggest that you
27 have some flexibility in setting prices below that cap, and
28 the prices that we establish follow the Board's rules with

1 respect to cost allocation and rate design.

2 And there is no flexibility in setting the prices.
3 The prices are set in order to deliver the revenue cap
4 that's established by the formula -- or sorry, the revenue
5 that's established by the formula. So I don't think there
6 is that flexibility.

7 MR. LADANYI: The way I read this flexibility, by the
8 way, is really that it allows the distributor flexibility
9 on how to run its business so that it can operate and
10 provide service under a fixed price, or a limited price.
11 And this is where incentive comes in to be more productive.
12 The utility is not able to pass on its cost to ratepayers
13 to run its business. It is actually limited from passing
14 its cost, and therefore is forced to finding savings.

15 Would you agree with that?

16 MR. ANDRE: Yes, we agree and I think the Boards'
17 rules around the custom IR and the process that is
18 established for a custom IR achieves those same goals.
19 There is a productivity factor built into the OM&A and the
20 capital spend.

21 Hydro One has already included productivity in its
22 initial 2018 costs; that was referred to in our opening
23 statement. So there's productivity built in there. And I
24 would expect we have -- I don't know if we have other
25 mechanisms in terms of protecting customers around a custom
26 IR.

27 So I would agree that the custom IR delivers those
28 same incentives as the formula that you've set up here, or

1 that you've referred to.

2 MR. LADANYI: Could you turn to page 12 of the
3 Compendium? In the first paragraph, I think it's the third
4 sentence:

5 "The price cap approach has the distinct
6 advantage that it comes the closest of the three
7 to replicating the process of competitive
8 markets."

9 So you can see what the Board was looking at in
10 regulation, and I think the Board is always looking to do
11 that in regulation, to replicate the process of competitive
12 markets.

13 But the price cap, it says -- if you read further
14 down towards the end of that paragraph:

15 "It leaves the LDC exposed to changes in energy
16 throughput. Some have argued that the incentive
17 for the utility to maximize throughput under the
18 price cap mechanism is a drawback. On the other
19 hand, this may be seen as an effective use of an
20 available capacity."

21 So this is what the committee or the task force
22 thought in that time about the price cap.

23 Do you still agree with that, or do you feel that
24 things have changed so much that it's not -- it is no
25 longer true?

26 MR. ANDRE: I don't know if it is no longer true. I
27 mean, this was a 1999 report, and I think the Board has
28 considered incentive regulation many times since then. And

1 I think the Board's current thinking on what is required in
2 terms of delivering outcomes for customers is best
3 reflected in their handbook for rate applications, and is
4 best reflected by the three options that they now make
5 available to utilities in terms of price cap index, a
6 custom IR, or an annual index.

7 So I think the Board's thinking has evolved over time
8 and we're -- we've put together our application with
9 reference to the Board's current directions on how to
10 prepare an application.

11 MR. LADANYI: So the next paragraph says: "The
12 revenue cap mechanism attempts to resolve the throughput
13 problem associated with a price cap PBR," performance-based
14 regulation, which is what they called incentive regulation
15 at that time.

16 "Instead of setting a price cap, it sets a
17 revenue cap. However, in resolving this problem,
18 it create others."

19 And specifically:

20 "Once the revenue cap has been set, the LDC
21 has an incentive to set prices at levels that
22 would under utilize the capacity of the system.
23 This discretionary control over prices could also
24 lead to greater price volatility. Moreover, the
25 revenue cap mechanism requires throughput growth
26 projections and the use of true-ups in the event
27 of errors in any of the projections that make up
28 the revenue cap. Perhaps most importantly, it

1 does not focus on the setting of relative prices
2 and providing a set of incentives within the
3 framework that encourages optimal efficiency."

4 So the way I read this paragraph, it suggests to me
5 that the revenue cap does solve problems, certainly as they
6 say. But it create new ones and it also does not provide
7 as much of an incentive to increase efficiency or
8 productivity as a price cap.

9 MR. ANDRE: Again, I think this paragraph points to
10 the fact that thinking has evolved over time, and that this
11 is probably a theoretical-based discussion because in the
12 middle of that paragraph, as you read, it says this
13 discretionary control over prices could also lead to
14 greater price volatility.

15 And as I think I indicated in my earlier response,
16 there is no discretionary control over prices. The custom
17 index as proposed will define the revenue that's to be
18 collected, and then that revenue to be collected together
19 with the load forecast that's been established for that
20 year will determine exactly the prices to be set; there is
21 no discretionary control.

22 So that suggests to me that this was a more of a
23 theoretical discussion back in 1999 and as I've indicated,
24 we're going with the direction that's currently identified
25 by the Board's renewed regulatory framework.

26 MR. LADANYI: But the revenue cap could result, even
27 under your method which is, let's say, the current method
28 of revenue cap in greater fluctuation of rates. They could

1 be up more or down more, depending on the load because they
2 would be very dependent on the load and also on your
3 capital factor.

4 MR. ANDRE: If it wasn't for the integration of the
5 acquisitions in 2021, the revenue cap as we've proposed is
6 essentially identical to the price cap. All that would be
7 required to translate that revenue cap into a price cap
8 would be a reflection of what's happening to load, which is
9 essentially what Toronto Hydro did.

10 If you look at Toronto Hydro's index formula, the
11 first part of the formula calculates what changes are
12 required to the revenue requirement. And then they add a
13 growth factor to the end of their formula to reflect that
14 they aren't updating for load forecast. They are using the
15 load forecast that they established for their five-year
16 period and came up with one growth factor.

17 In our case, we don't have one growth factor over the
18 four years because the integration of the acquired
19 utilities in 2021 doesn't lend itself to that.

20 Hydro One's revenue cap as proposed for 2019 and 2020,
21 the years before the integration of the acquired utilities,
22 that could easily be a price cap just simply by addressing
23 the growth or change in customer -- number of customers and
24 volume of customer load. So the addition of a growth
25 factor for those years would make those two formulas
26 identical.

27 I don't think there is as much difference between
28 revenue cap and price cap as you are suggesting. It is

1 really how you deal with the changing load in the
2 subsequent years. And Hydro One has chosen to deal with
3 that changing load by taking the actual determinants as we
4 currently forecast for those years, and dividing the
5 revenue requirement by those determinants to come up with a
6 specific rate.

7 Could it be smoothed via a growth factor?

8 Potentially. But again, we couldn't do that for 2021
9 because the integration of the acquired utilities drives
10 both the discontinuity in the cost to be collected and a
11 discontinuity in the load forecast over which those costs
12 are collected.

13 MR. LADANYI: What you're saying -- my impression is
14 that the revenue cap actually transfers the load risk to
15 the ratepayers. Under price cap, the shareholders bear the
16 load risk; under revenue cap, the ratepayers bear it.

17 MR. ANDRE: No, sorry. If that's what you took from
18 my discussion, I wasn't clear. The price cap takes --
19 instead of having an annual adjustment to take into account
20 for the load, it would come up with an averaged growth
21 factor. So a price factor also takes load into account,
22 but it does it via a G factor that applies to all years.
23 Hydro One's proposal does that for each year of its
24 application.

25 So, no, price cap will absolutely -- takes growth into
26 account and puts that risk in the same place as a revenue
27 cap, and that is with -- you know, the utility is agnostic
28 as far as load is concerned, whether load is going up or

1 down, and to the extent that that drives rates we're
2 agnostic to that, but both the price cap via the growth
3 factor and a revenue cap via the calculation of rates to
4 take into account the subsequent years' billing
5 determinants, those arrive at the same place.

6 MR. LADANYI: Thank you for that answer. If you could
7 turn to page 16 -- page 15, perhaps, and tell us what we
8 are looking at. During that same time period that the task
9 force on cap methodology prepared a report, Board Staff
10 also prepared its own report and discussed again the
11 differences between price cap and revenue cap, and we'll go
12 quickly through this, because I think we have probably
13 covered in a fair amount of detail, but there are some good
14 sentences in here that we should look at. So on page 11,
15 if you look at the last paragraph, it says:

16 "Price caps are a form of utility regulation that
17 focuses initially on controlling prices directly,
18 rather than indirectly as to cost-of-service
19 rate-of-return regulation."

20 So price cap focuses directly on the rates that the
21 ratepayers pay. And essentially, my read of this, that
22 price cap is trying to keep those rates from increasing
23 faster than the rate of inflation; that's the intent of
24 price cap.

25 In the revenue cap it isn't really the same, and we'll
26 turn to revenue cap in a minute.

27 MR. ANDRE: Yeah, so, I'm sorry, what was the
28 question?

1 MR. LADANYI: The question is whether you agreed with
2 what I said, and I'm not sure I will be ready to repeat it,
3 but in essence if price cap is a simpler form of regulation
4 that focuses directly on the rates that the customers or
5 ratepayers are paying, by trying to keep them increasing at
6 a lower rate than the rate of inflation increase in society
7 at large, if you like?

8 MR. ANDRE: So again I would point to the recent
9 rulings that the Board has made with respect to a number of
10 utilities that have come under custom IR, and in terms of
11 how it's being applied new with respect to price cap,
12 Toronto Hydro is a good example. So the price cap index
13 that Toronto Hydro has increases the revenue requirement to
14 reflect product -- inflation minus productivity, adjusts
15 that revenue requirement to reflect the change in capital
16 via its capital growth factor, and then -- sorry, via its
17 capital factor, and then it has a growth component to
18 reflect its changing load in the subsequent years and what
19 that has -- what impact that has on rates.

20 So, no, I mean, based on recent experience, the
21 regulation now would adjust for the utilities' needs, OM&A
22 and capital needs, and even under the price cap regulation,
23 remember, that first option has the ability for an ACM or
24 ICM in subsequent years to, again, address the capital
25 need, so I think the capital requirements have been
26 recognized by the Board. They've adjusted their IRM
27 formulas to take that into account, and they've further
28 provided a custom IR option where they recognize that some

1 utilities' capital needs go beyond what could be provided
2 via an ACM or ICM, and so they allow that option for
3 utilities to file, and that's what Hydro One is doing, it's
4 filing an option that recognizes its capital investment
5 needs.

6 MR. LADANYI: Thank you. So if you could turn to page
7 17 of our compendium, there -- Board Staff report discusses
8 revenue-cap regulation, and I've probably taken too much
9 time on these basics, but I want to draw to your attention
10 on page 18 a concluding statement which is in paragraph 1,
11 and you can -- and we can read the rest if you like as
12 well:

13 "However, revenue caps differ from price caps in
14 reducing both incentive risk and the risk
15 associated with sales."

16 MR. ANDRE: So again, I would -- in terms of how it's
17 been implemented since this report was written in 1998, in
18 terms of how it's being implemented now, the change in
19 sales is absolutely a consideration in the setting of the
20 price cap index. In the Toronto Hydro proceeding PEG
21 highlighted that as an issue, that the formula, as proposed
22 by Toronto Hydro, wasn't taking into account the growth in
23 customers, and the Board in that proceeding agreed with PEG
24 and had required Toronto Hydro to include a growth
25 component that takes into account sales in subsequent
26 years.

27 So again, I think the sentence or the paragraph that
28 you've pointed to is older thinking that doesn't reflect

1 the latest directions from the Board.

2 MR. LADANYI: I included in the compendium also the
3 Board decision that after receiving all of these reports
4 the Board, on page 14 of the compendium, you can see that,
5 it decided to adopt a price cap mechanism for the PBR for
6 the first-generation IRM, if you like. It says:

7 "Further, the Board is of the opinion that price
8 cap regulation for all the electricity
9 distribution utilities represents a simple
10 approach that will provide incentives for
11 efficiency improvements and will at the same time
12 provide the ability to maintain service quality
13 over the course of the first-generation PBR."

14 So at that time the Board believed that a price cap
15 was providing greater incentives than other alternatives,
16 including a revenue cap.

17 MR. ANDRE: Yeah, again, that sentence points to the
18 fact that that was the thinking going into the first-
19 generation PBR, and I think it's by the time they got to
20 the third-generation PBR it was recognized that capital
21 spend needs were an issue, and I think at that time they
22 introduced the ICM module as an adjustment to price cap in
23 order to deal with those needs. Since then they've
24 developed a ACM approach and they've developed a custom IR
25 approach to deal with those utilities that really have
26 special circumstances that take them outside of what is
27 suitable under a price cap.

28 MR. LADANYI: Since you do mention ICM, so if you see

1 on page 20 of my compendium, you can see that ICM is not
2 applicable to custom IR. You can see that, and we will
3 agree with that.

4 MR. ANDRE: Absolutely.

5 MR. LADANYI: However, have you, prior to filing this
6 application or even deciding on the revenue cap with a
7 capital factor, have you done some calculations to see
8 whether your needs could have been met by ICM or ACM?

9 [Witness panel confers]

10 MR. D'ANDREA: We did not do the calculations. We had
11 to holistically look at the options that were available to
12 us, and because of our large and variable work program,
13 which is one of the requirements for custom IR, we thought
14 that the custom IR, based on Toronto Hydro precedent, that
15 would more suit our needs in terms of meeting our
16 distribution system plan requirements. The ICM, ACM model
17 is really meant for discrete projects that are non-
18 reoccurring.

19 MR. ANDRE: And I just, I would add to that, so in
20 addition to those considerations, again, integration of the
21 acquired utilities in 2021 was another key factor in saying
22 that a price cap approach wouldn't be suitable.

23 MR. LADANYI: So if I understand what you are saying
24 is that your capital investments are large and lumpy, are
25 large and not lumpy? What you are saying, because ICM is
26 designed for large and lumpy, so yours are large but not
27 lumpy; is that right?

28 MR. D'ANDREA: I would say they are large and lumpy.

1 MR. LADANYI: Yeah, but ICM specifically is designed
2 for large and lumpy, so it's got to be large and not lumpy,
3 but, I mean, we can get into that when we discuss the
4 capital numbers. I don't want to get into a capital
5 numbers discussion.

6 MR. ANDRE: I mean, I would point you to the Board's
7 report on the funding of capital investments and the
8 details of the advanced capital module, and that was under
9 proceeding EB-2014-0219, and on page 14 of that report they
10 point to the fact that the use of an ACM is most
11 appropriate for a distributor that does not have multiple
12 discrete projects for each of the four IR years for which
13 it requires incremental capital funding. Hydro One does
14 have multiple discrete projects, and ACM is most
15 appropriate for a distributor that is not seeking funding
16 for a series of projects that are more related to recurring
17 capital programs for replacements or refurbishment. Again,
18 some of the capital that we are seeking is a recurring
19 capital program, so not discrete projects for replacements
20 or refurbishments, so again, Hydro One is in that situation
21 and therefore an ACM is appropriate.

22 And then the last one is, an ACM is most appropriate
23 for a distributor that is not proposing to use the entire
24 eligible incremental capital envelope available for a
25 particular year. And our capital needs make full use of
26 the incremental capital envelope.

27 So, you know, based on the ACM report itself, Hydro
28 One's circumstances are such that it wouldn't be suitable

1 to make use of an ACM.

2 MR. LADANYI: Okay. I think we can probably argue
3 that in argument, so I don't want to go any further with
4 this.

5 Could you turn to page 25 of the compendium? This is
6 from the handbook of utility rate applications, the Board's
7 own handbook, and if you look at the last paragraph or last
8 bullet point on that page, basically it says:

9 "Custom IR is not a multi-year cost of service.
10 Explicit financial incentives for continuous
11 improvement and cost control must be included in
12 the application."

13 Do you believe that you have explicit financial
14 incentives for continuous improvement and cost control in
15 your application?

16 MR. D'ANDREA: Yes, I believe that. Let me elaborate.

17 We have productivity savings already baked into our
18 custom IR. We've got it in capital and we've got it in
19 OM&A, and those will even help us meet our DSP, and we've
20 got the reductions for the productivity factor.

21 Our cost of capital is not updated annually, so it is
22 meant to be a pure IRM formula and we're incented to define
23 those savings. You've got to remember, too, when we put
24 forth our capital programs, we have plans A, B and C. The
25 recommendation was originally Plan A. We were challenged
26 by our board, and so we're trying to find the right
27 balance, we call it striking the right balance between
28 customer rates, between the system reliability and the rate

1 impacts.

2 So what we've done is develop a plan that meets our
3 needs. There is not a lot of system reliability
4 improvements, but it does meet our needs for the next five
5 years.

6 So we are driven to find those efficiencies, because
7 we are always gearing towards Plan A even though we have
8 got a Plan B modified in terms of this rate application.

9 MR. LADANYI: Thank you. So could you turn to page 26
10 of the compendium, which, by chance, is exactly page 26 of
11 the handbook. Amazing coincidence.

12 At the first paragraph, it says:

13 "The index must be informed by analysis of the
14 trade-offs between capital and operating costs,
15 which may be presented through a five-year
16 forecast of operating and capital costs and
17 volumes."

18 And so on. I don't have to read you the whole
19 paragraph.

20 Have you performed this analysis of trade-offs
21 between capital and operating costs?

22 MR. D'ANDREA: The analysis of operating or capital is
23 really a question of the planning group, and in derivation
24 distribution system plan, they make their informed
25 investment decisions on whether to approach a particular
26 investment that is operating or replacement through a
27 capital addition.

28 MR. LADANYI: So we will, I guess, have to follow-Up

1 about this trade-off analysis with the capital group?

2 MR. D'ANDREA: I can't speak to the analysis they've
3 done, but I know they are the ones that make those
4 investment decisions. So it would be best to leave it to
5 that panel.

6 MR. LADANYI: But there is no clear evidence that
7 would point me to a finding or assessing this trade-off?
8 There is no specific piece of evidence. It is buried
9 somewhere in the capital evidence, is that correct?

10 MR. ANDRE: Well, again let's -- if we read the that
11 sentence, they say that the index must be informed by an
12 analysis of the trade-offs between capital and operating
13 costs, which may be presented through a five-year forecast
14 of operating and cost capital costs. In other words, that
15 analysis of your five years of OM&A and capital spending,
16 as Mr. D'Andrea just said, which is part of our
17 distribution system plan, that goes towards identifying the
18 trade-offs that have been made.

19 I'm not as familiar as to whether there is a specific
20 table or assessment that looks at that. It is the whole
21 distribution system plan in total that gets to which
22 investments are better handled through OM&A and which
23 investments are better handled through capital.

24 MR. LADANYI: Okay. In the second paragraph, it
25 says:

26 "It is insufficient to simply adopt a stretch
27 factor that the OEB has established for
28 electricity distribution IRM applications. Given

1 the utility's ability to customize the approach
2 to rate-setting to meets its specific
3 circumstances, the OEB would expense generally
4 expect the custom index to be higher, and
5 certainly no lower than the OEB-approved X factor
6 for price cap IR that is used for electricity
7 distributors."

8 So is your custom index higher or lower?

9 MR. FENRICK: I can answer that. So the X-factor
10 would be the same that the company is proposing versus the
11 IRM option, the 0.45 percent.

12 MR. D'ANDREA: If I could add to Mr. Fenrick's
13 response, the capital already includes -- productivity
14 savings are already baked in. So if you couple that
15 together, it's actually higher because we have already
16 baked in savings that we are committed to.

17 MR. LADANYI: I'll have to think about that. So if
18 you go to page -- by the way, I am mindful of the time and
19 I think a break is coming at 11:15. So let me finish this
20 section; it will take us probably about five minutes and
21 that will be a good time to break.

22 So page 27, the last bullet point says:

23 "Protecting customers: A key objective of
24 incentive regulation is to drive productivity
25 improvements within the utilities."

26 And it says in the paragraph below:

27 "However, the OEB expects utilities filing a
28 custom IR application to propose one or more

1 mechanisms to protect customers from utility
2 earnings that become excessive."

3 So how are you doing that?

4 MR. D'ANDREA: In our application, we are proposing an
5 earnings-sharing mechanism, as I said in my opening
6 statement.

7 MR. LADANYI: So that is your main methodology for
8 protecting ratepayers from excessive earnings?

9 MR. D'ANDREA: That's correct.

10 MR. LADANYI: Okay. If you go to page 28, in the very
11 last paragraph on that page is a warning to custom IR
12 applicants:

13 "If a custom IR application does not meet all of
14 these requirements" -- and there's many; I did
15 not obviously refer to all of them -- "the OEB
16 may impose a reduced term, reject the
17 application, or determine that an application is
18 incomplete and will not be processed until the
19 requirement are met."

20 So the last time Hydro One was before the Board, it
21 actually got a reduced term. Is that right?

22 MR. D'ANDREA: That's correct.

23 MR. LADANYI: So at this time, you feel that you have
24 met all the requirements and that you will not get a
25 reduced term?

26 MR. D'ANDREA: As I said in my opening statement,
27 we've gone through the handbook and we believe we strongly
28 met the requirements. This is minimum of five years.

1 We've got an annual rate adjustment that is supported by
2 empirical evidence, our 0.45 stretch factor. We've got
3 benchmarking, which is also a requirement by PRC.

4 We've got performance metrics that are clear, visible
5 and transparent, not only our OEB scorecard, but we have a
6 supplementary scorecard and a team scorecard.

7 We have very little in the way of updates, and we are
8 protecting customers through our earnings-share mechanism
9 and our capital and service variance accounts.

10 On that basis, we believe, and actually following
11 Toronto Hydro, that we've met the requirements.

12 MR. LADANYI: Thank you, this is a good time to break.

13 MR. QUESNELLE: Thank you. Let's do that then. Let's
14 return at 11:30.

15 MR. VEGH: Thank you, Mr. Chair, just before we do
16 break, I think we had indicated on the record...

17 As you are aware, and has been the practice in the
18 past, even though on a break and on subsequent breaks, I'll
19 continue to work with the panel with respect to answering
20 interrogatories and things of that sort on an ongoing basis
21 throughout the course of the hearing.

22 MR. QUESNELLE: That's understood, Mr. Vegh, thank you
23 very much.

24 --- Recess taken at 11:15 a.m.

25 --- On resuming at 11:38 a.m.

26 MR. QUESNELLE: Thank you. Please be seated.

27 Continue, Mr. Ladanyi.

28 MR. LADANYI: Thank you, Mr. Chairman.

1 If you could turn to page 29 of the compendium. Now,
2 here we have covered most of what's in this response. One
3 thing I want to just get a confirmation on, during
4 examination in-chief I had the impression that Mr. D'Andrea
5 said that the stretch factor was 0.5 percent. Perhaps it's
6 the sound in the room. Were you saying 0.5 percent or 0.45
7 percent?

8 MR. D'ANDREA: My colleague Mr. Andre said I misspoke.
9 It is .45.

10 MR. LADANYI: Thank you.

11 So could you turn to page 30 then of the compendium.
12 Here you mention in your response in the third line that
13 custom IR method was required to meet Hydro One's
14 operational requirements. Could you explain to me what is
15 operational requirements and how are your operational
16 requirements significantly different from other
17 distributors in Ontario?

18 MR. D'ANDREA: Our operational requirements as those
19 spelled out in our distribution system plan. Again, we
20 pick the revenue cap model because of the large and
21 variable capital expenditures. I can't speak to how other
22 utilities are doing in terms of their capital; all I can
23 tell you is we picked the option that was considered for
24 us, in terms of the options under the rate handbook.
25 Again, there is no eligibility requirements. We picked the
26 one that was most suited to our business needs.

27 MR. LADANYI: So it wasn't specific, let's say to your
28 customer needs. It was really basically to Hydro One's or

1 Hydro One's shareholders' needs?

2 MR. D'ANDREA: No, I would disagree with that. As I
3 stated at the beginning several times in my response, it is
4 a balance. And we strike the balance with our Board. It's
5 striking a balance between operational needs, our customer
6 preferences, and the rate impacts.

7 MR. LADANYI: Now, further on in that response on page
8 30 you mention that you looked at Toronto Hydro and you are
9 adopting the same kind of methodology. And Toronto Hydro,
10 of course, is a price cap, and you can turn to page 32 and
11 the following pages, 33 of the compendium, and there is the
12 Board decision or portions of the Board decision in the
13 Toronto Hydro case, EB-2014-0116, and we know that it is a
14 price cap.

15 So rather than going through every page maybe you can
16 simply tell me what are the similarities and differences
17 between your application, in very simple terms, and Toronto
18 Hydro's application, so first, what are the similarities,
19 and then you can tell me what are the differences, or you
20 can do it the other way around.

21 MR. D'ANDREA: Maybe what I'll do is I'll go through
22 the different components, so our application is based on a
23 five-year custom IR, as is theirs, the difference being
24 they are under a price cap and we are under a revenue cap.

25 They have a capital factor as well, although in their
26 case their capital factor was reduced by 10 percent. That
27 reduction was based on lack of productivity improvements
28 and a focus by Toronto Hydro as a replacement, as opposed

1 to customer needs, whereas we've gone through an extensive
2 customer consultation process.

3 The OEB-approved capital and service variance account,
4 we have proposed a capital service variance account as
5 well. We will add back verifiable productivity savings in
6 our capital and service variance account. No such concept
7 was there in Toronto Hydro.

8 Toronto Hydro applied for updates to the cost of
9 capital and load forecast, both of which were denied. We
10 are asking for a one-time opener, if you want to call that
11 word, in 2021 when we integrate the acquired utilities, and
12 we both have an earnings sharing mechanism with 100 basis
13 points split 50-50.

14 MR. LADANYI: So would that be all?

15 MR. D'ANDREA: Those are the main highlights.

16 MR. LADANYI: Okay, thank you.

17 So if you could turn to page 28 -- sorry, 35 of the
18 compendium, page 28 of the Toronto Hydro decision. And
19 there is a -- there is a suggestion at the bottom that is
20 discussing that. It says:

21 "PEG's evidence suggested that C factor should
22 include an adjustment for the growth in Toronto
23 Hydro's billing determinants in order to prevent
24 the C factor from over-recovering capital costs."

25 So are you sure that your C factor will not over-
26 recover your capital costs? And how are you sure of that?

27 MR. ANDRE: So the -- PEG made that statement, and the
28 Board in its decision agreed with that assessment because,

1 as we've said, the Toronto Hydro is price cap, and so if
2 they apply escalated prices to a growing customer base,
3 right, same prices, but you have more customers and more
4 load, that's going to generate additional revenues for you
5 that you can use to offset your capital needs, so under a
6 price cap -- and we absolutely agree with this statement --
7 under a price cap you need to take into account what's
8 happening to your load and how that new load times the
9 price-cap adjusted prices, what kind of revenues that will
10 generate.

11 Under Hydro One's proposal we're increasing the
12 revenue requirement that we need per our capital plans that
13 we identified per our capital growth factor and then we're
14 taking that revenue requirement, as an example, in '19, so
15 the higher revenue requirement in '19, and then dividing it
16 by the actual billing determinants in that year, so that
17 given the forecast load that we anticipate we will exactly
18 recover the revenue requirement as approved by the Board
19 under the revenue cap index.

20 MR. LADANYI: And these billing determinants are
21 forecasted for the entire five-year period, or tell me
22 again how they work.

23 MR. ANDRE: Yes, our application includes a forecast
24 of the billing determinants for the full five years of the
25 application, and other than the update in 2021 for the
26 reasons laid out in a number of IRs we are committing to
27 stick to that forecast.

28 MR. LADANYI: So the update would be only for the

1 merged utilities; i.e., the Hydro One's portion of the
2 billing determinants would remain unchanged, but the only
3 billing determinants will be essentially to that you'll add
4 billing determinants for the merged utilities.

5 MR. ANDRE: No, our proposal is to update the load
6 forecast, Hydro One's total load forecast, in that year.

7 MR. LADANYI: In its entirety.

8 Okay. So can you turn to page 40, please. This might
9 be a question for Dr. Fenrick, because I think he provided
10 the answer. This is a response to OEB Staff Interrogatory
11 No. 25. And here they are questioning how the X-factor was
12 calculated and whether the billing determinants are
13 important in calculation of the X-factor. And your
14 response was that billing determinants are not pertinent to
15 design of an X-factor in the context of a revenue cap
16 index.

17 And then you provide, Dr. Fenrick, some calculations,
18 and I'm not expecting you to go through these, but if you
19 can tell us in simple terms why billing determinants are
20 not pertinent for a revenue cap?

21 MR. FENRICK: Absolutely. So a revenue cap index, if
22 you to go a high level, is supposed to track cost, in total
23 costs, and what the Hydro One needs as far as recovering
24 those costs, and so the -- if there was some sort of growth
25 index or the output index in the TFP calculation should be
26 cost-elasticity-weighted rather than revenue-weighted or
27 billing-determinant-weighted, and so that's the point I was
28 getting at there, and the question was essentially for a

1 price cap index, the revenue weights and billing
2 determinants are the pertinent thing to be tracking in
3 those output indexes, but in a revenue cap index context
4 where we're trying to track costs and have revenues match
5 cost, then cost elasticity-weighted output indexes are the
6 appropriate index that will track cost the best.

7 MR. LADANYI: And the cost of a utility's actual
8 costs, whereas in price cap they are not the utility's
9 actual cost; is that what you're saying?

10 MR. FENRICK: Well, incentive regulation we are not
11 tracking actual costs. We are tracking a projection of the
12 escalation of that cost based on industry norms.

13 MR. LADANYI: So essentially what you are saying in
14 price cap you are not escalating costs, but in revenue cap
15 you are escalating costs, forecast costs?

16 MR. FENRICK: In a price cap, you are trying to come
17 up with an escalation mechanism that will track unit costs,
18 or what prices will need to be -- that the utility would
19 need to be charging in order to recover revenue and that's
20 driven by unit costs, which is inflation minus X.

21 In a revenue cap index context, you are trying to
22 determine, rather than unit cost, what total costs and how
23 that cost will be escalated, and that should be based on
24 cost elasticity weights in the output index for the TFP
25 calculation -- which is what we have here, by the way.

26 MR. LADANYI: I'll have to think about that.

27 In part (b), Board Staff says:

28 "The Ontario utilities' positioning to rate

1 designs with high fixed charges for residential,
2 and possibly also for other commercial industrial
3 classes, that this reduced the weights that are
4 appropriate for volume and peak demand variables
5 in the output index for productivity research
6 intended to establish a price cap index
7 productivity factor."

8 And your answer is part (b), and you can see that.
9 Can you elaborate on your answer, part (b) on page 42?

10 MR. FENRICK: I can. It is essentially the same
11 answer as I just gave, as far as a price cap index should
12 have the billing determinant revenue weights, as I say in
13 that first sentence.

14 But when move to a revenue cap index, now we are
15 trying to track costs rather than unit costs. So rather
16 than billing determinant revenue weights, a cost elasticity
17 weighting should be conducted.

18 In the TFP analysis that we provided, that's what we
19 did was a cost elasticity-weighted index, which is the
20 appropriate method. PEG also did the appropriate method as
21 far as a cost elasticity-weighted output index for the
22 revenue cap index, and so this is all -- if you go through
23 the mathematics of it, it is exactly as it should be. It
24 is best practice that we are putting forth here.

25 MR. LADANYI: Since I've got you answering questions
26 now, could you just turn to page 48, which is your response
27 to VECC Interrogatory No.8?

28 If I can ask you just a simple question. Dr. Fenrick,

1 you have actually no methodological or philosophical
2 differences with PEG or Dr. Lowry. Is that right? The
3 only differences in the collection of data, is that
4 correct?

5 MR. FENRICK: I would characterize it as there is
6 certainly minor differences of opinions between experts. I
7 think -- I believe that PEG's methodology overall is a
8 sound one. We, in many ways, employ the same methodology.
9 I believe it is best practice.

10 If you look at the total factor productivity research,
11 we use similar methods as far as geometric decay
12 assumptions that I believe are the most appropriate for
13 distribution and transmission utilities. On the
14 benchmarking front, we do a similar kind of metric
15 approach.

16 Yes, we differ on sometimes the datasets. For
17 instance, we have 380 different utilities in the PSE
18 dataset, which is an extremely large dataset that we've
19 conducted our econometric testing on.

20 PEG limited that to more around a 70 number. We came
21 out with nearly identical results on benchmarking. Both
22 independent consultants came up with a 0.45 percent stretch
23 factor. Our findings are extremely close in those
24 differences.

25 So I would characterize -- yes, we have minor
26 differences, for instance on the input price assumptions
27 and things like that. But overall, I believe PEG does
28 employ best practice methods, as well as PSE does.

1 MR. LADANYI: In your answer to part C on page 49, you
2 discuss the dataset. So PEG used an Ontario-only dataset,
3 which you disagree with, and you used a dataset that
4 included U.S. utilities. Is that right?

5 MR. FENRICK: When you say PEG, you mean PEG's fourth-
6 generation IR benchmarking research as opposed to their
7 report in this proceeding? They did use a U.S. -- they had
8 utilities in the U.S. and came out with very similar
9 results.

10 So you mean the fourth-generation IR?

11 MR. LADANYI: I think the answer in part C refers to
12 the fourth -- I am looking at the answer, and I thought
13 they were the same. But you are telling me there is a
14 difference, so can you explain that?

15 MR. FENRICK: Right. For the fourth-generation
16 incentive regulation, PEG uses an Ontario-only dataset that
17 is meant to estimate stretch factors for all the
18 distributors in the province.

19 In this specific case, PEG modified that dataset and
20 included U.S. distributors which much more closely matched
21 PSEs or our dataset, in which we also use U.S.
22 distributors, essentially because evaluating Hydro One's
23 total cost benchmarking performance, you really do need to
24 employ a larger and more diverse dataset than the Ontario-
25 only dataset.

26 Hydro One is an extreme outlier within Ontario and so,
27 while PEG's 4G IR methods are perfectly sound for the best
28 majority of distributors in the province, they are not

1 appropriate for extreme outliers, such as Hydro One.

2 MR. LADANYI: So there are some U.S. comparators that
3 are similar to Hydro One? Which ones would they be?

4 MR. FENRICK: I would say there is no exact similar
5 comparators to Hydro One, which is why we did not use a
6 peer-grouping approach. We used econometrics, which
7 essentially looks at the variables that drive cost, you
8 know, density, number of customers, peak demands, input
9 prices, forestation, a whole host of variables that we put
10 into the models and said okay, given these variables, how
11 does each one influence cost of its distributor.

12 So using the econometric approach, we don't
13 necessarily need exact comparators to Hydro One. We just
14 need to determine those factors that drive cost, how those
15 factors drive cost, and then fashion a benchmark using that
16 analysis and that econometric approach, which is why we
17 have 380 distributors in our dataset over 4,000-some
18 observations when you look at all the annual observations
19 to really drive down and determine, okay, given each of
20 these variables, how does that influence distributor costs,
21 and then we fashion that benchmark accordingly.

22 So it is a much more sophisticated analysis than doing
23 a simple peer group approach, because you are exactly
24 right, there is no exact comparators to Hydro One within
25 North America.

26 And so using this approach is the most sophisticated,
27 most accurate result that we can come up with, and both PSE
28 and PEG have come to very similar conclusions on what that

1 shows.

2 MR. LADANYI: Did PEG do the same kind of analysis or
3 not?

4 MR. FENRICK: I would characterize it is a very
5 similar. The datasets were different, so we used -- PSE
6 used rural electric cooperatives in the U.S. to basically
7 inform our models with utilities that have more rural
8 service territories.

9 PEG decided to not include that dataset, but focused
10 on the investor-owned utilities. There's also a few
11 variable differences. But at the end of the day, they
12 employed very similar econometric methods. Their cost
13 definitions were very similar and their whole approach, I
14 would characterize it is a very similar as well as the
15 results came out nearly identical, even given those
16 differences.

17 MR. LADANYI: Mr. Chairman, I'm mindful of the time.
18 Do I have enough time, lets say, for another roughly
19 another half hour? How constrained are we?

20 MR. QUESNELLE: Well, that is considerably beyond your
21 estimate, Mr. Ladanyi. But carry on. As far as the lunch
22 break goes, yes, you have enough time. But I'm hoping we
23 get someone else started before lunch.

24 MR. LADANYI: Thank you, sir. There are a number of
25 areas that I'd like to cover, but I'd like to go to
26 something that's not in the compendium, which is a
27 spreadsheet.

28 So Energy Probe tried to do a calculation comparison

1 of price cap and revenue cap, and we exchanged draft
2 spreadsheets with Hydro One last week. I don't know that
3 we reached an agreement, but I would like to discuss some
4 of the numbers on the spreadsheet with Hydro One and to --
5 they can point out, if there are some problems with it and
6 what the difficulties are.

7 So it is up on the screen now. Can we have an exhibit
8 number for that, please?

9 MR. SIDLOFSKY: Yes, that will be K1.5.

10 **EXHIBIT NO. K1.5: ENERGY PROBE PANEL 1 SPREADSHEET**

11 MR. LADANYI: So here in the first line we have the
12 revenue requirements from the evidence, and there is a
13 reference in the right-hand column. And then we increase
14 the revenue requirements by the index and we arrive at --
15 we also have below that line -- in the line below that we
16 have total load per year in gigawatt hours, and then we
17 convert that to kilowatt hours, and then we calculate an
18 average rate per unit delivered. Just a very simple
19 calculation. And then we calculate an average annual --
20 average percent change in cost per unit delivered, and
21 below that we try to duplicate what the price cap would do
22 under the same circumstances, so we take the revenue
23 requirement from in 2018, the base year, and we calculate
24 just the very simple annual rate. I know that Hydro One
25 has a complex rate structure, of course. And then we
26 escalate that by 1.45, and you can see the annual revenue
27 on -- using price cap, what it is, which is in the second-
28 to-last line on the page. And then we have in the very

1 last line the differences between the two.

2 And based on our calculation, which may or may not be
3 right, and you will -- I will ask you to tell me where
4 we're wrong -- it shows that your revenue cap proposal is
5 recovering substantially greater amounts of money than a
6 similar price cap would do.

7 So, for example, in 2019, you will be recovering from
8 ratepayers \$43 million more than you would have if you had
9 a fourth-generation IRM price cap. And we are leaving out,
10 by the way, any potential ICMs here or anything else like
11 that.

12 So if I can ask you -- have you had a chance to look
13 at this last week and possibly more over the weekend --
14 could you tell me if we're correct here in our assumption?

15 MR. ANDRE: So I did have a chance to look at this
16 spreadsheet, and really my observations are two. One is,
17 so in what you've done in the third row from the bottom --
18 and you didn't make that very clear -- what you've taken is
19 the previous year's price, so in 2018, the third row from
20 the bottom, the previous year's price was 4.16, 4.16, and
21 then you escalate that by the -- what you are calling the
22 price cap index, which is just inflation minus
23 productivity, or 1.45 percent, so the 4.16 goes to 4.22.

24 And then you take the 4.22 and you multiply that by
25 the forecast load in 2019, which is a decrease, so the load
26 did drop, so you take this adjusted price that only takes
27 into account the 1.45 percent, multiply that by the lower
28 load, and that's how you come up with what you're saying is

1 the revenue -- annual revenue under price cap, and then you
2 calculate the difference.

3 So my observations are two. One is obviously if you
4 only take into account the 1.45 percent you are ignoring
5 the fact that Hydro One has significant capital needs and
6 Hydro One's revenue cap includes the revenue associated
7 with funding its capital requirements as identified in its
8 distribution system plan. So that's one.

9 If you only take into account productivity --
10 inflation minus productivity, you are ignoring the capital
11 needs that Hydro One has identified.

12 And then the second issue is, under your approach, you
13 are ignoring the change in load. So as the fourth row
14 shows -- and you are only looking at kilowatt hours, and I
15 think you did point out that other, you know, number of
16 customers and peak demand would also drive revenue, so this
17 is a simplification of what would drive revenues. But
18 taking that as a simplification, you see that the load
19 drops from 2018 to 2019, right, and so -- and there has
20 been no adjustment in your price cap to recognize that load
21 is dropping, you know, the -- as I mentioned before,
22 certainly Toronto Hydro's formula would take into account
23 the change in load.

24 Now, in their case load is going up, so their growth
25 factor was, we're generating more load -- more revenue as a
26 result of load going up. In this case it illustrates that
27 Hydro One's load is going down in '19, so really the rates
28 should be adjusted upwards to reflect that the load, which

1 is beyond Hydro One's control and which we're forecasting
2 to drop, that that load should be -- or, sorry, that the
3 rates should be adjusted to reflect that dropping load.

4 So those are the two things that really we completely
5 disagree with. Your price cap, as formulated here, doesn't
6 take into account the capital requirements, revenue
7 associated with capital, and it doesn't appropriately
8 account for the changing load from '18 to '19 and for the
9 other years as well.

10 MR. LADANYI: So doesn't specifically what you just
11 said prove that your revenue cap proposal, in fact,
12 transfers the load risk to the ratepayers? So if you had a
13 price cap, more of that risk would have been borne by the
14 shareholders and would have actually restrained Hydro One
15 from its spending in order to meet its, let's say earnings
16 requirements, so with a revenue cap there is actually a
17 built-in adjustment in your proposal whereby Hydro One is
18 protected from essentially load risk; isn't that right?

19 MR. ANDRE: No, I disagree. I think a properly
20 constituted price cap as it was in the case of Toronto
21 Hydro takes into account the impact of changing load on the
22 index that gets applied to prices.

23 So in Toronto Hydro's case, load was increasing, so
24 they adopted a growth factor that drops the prices to
25 recognize that load is increasing in subsequent year and
26 therefore you don't want to over-recover costs, and they
27 use an average growth factor over the years of -- over the
28 four years of their plan.

1 In Hydro One's case, we also need to take into account
2 load, so price cap takes into account load, a properly
3 constituted price cap takes into account, and our revenue
4 cap also takes into account load. They both do.

5 MR. LADANYI: But don't the fourth-generation IRM, the
6 other distributors, apart from Toronto Hydro, have the kind
7 of protection that you're seeking?

8 MR. ANDRE: You're right, under fourth-generation IRM
9 there is no recognition of what's happening to load, but,
10 you know, I would point you back to the Board's handbook
11 for rate applications, you know, and they specifically say
12 -- just bear with me.

13 So on page 24 of the Board's handbook they -- you
14 know, at the very top of the page -- it's been up on the
15 screen before, but I can read it for you. So custom IR,
16 under this methodology rates are set for five years,
17 considering a five-year forecast of the utilities' costs
18 and sales volumes, so that's what we're -- you know, under
19 a custom IR it is contemplated that both the costs and
20 sales volumes would be taken into consideration in
21 developing the index. That's what Hydro One -- that's what
22 Toronto Hydro did in theirs, and the Board -- they didn't
23 initially, but PEG pointed out that growth was an issue,
24 the Board agreed with that, so in the end what got approved
25 for their price cap took into account sales volumes, and
26 this is what Hydro One is doing in what we believe is a
27 simpler, more direct and transparent way, by adopting a
28 revenue cap and then adjusting for the sales volume in the

1 calculation of rates in the subsequent year.

2 MR. LADANYI: Thank you.

3 Just one more question. I'm mindful of the time, Mr.
4 Chairman. So could you turn to page 66 of our compendium.
5 This will be my closing question.

6 So this is in response to our interrogatory Energy
7 Probe number 3, and this table shows the 2019 bill impacts.
8 So on that table, the column around the middle of the table
9 that says "change in Dx bill", so it says "change in", I
10 think that's distribution bill; is that correct?

11 MR. ANDRE: Yes, that's correct.

12 MR. LADANYI: So the percent changes, when I look at
13 these changes, they are pretty scary. These are very large
14 numbers. Are you concerned about these large increases?

15 MR. ANDRE: Sorry, could I see page -- I don't happen
16 to have that one in my witness binder. Could I see page 1
17 of that?

18 MR. LADANYI: The question, actually?

19 MR. ANDRE: Yeah. Ah, okay. So the question asked:
20 If rates were made effective January 1st, 2019 -- sorry,
21 the application was approved as-is but an effective date of
22 January 1st, 2019. So what that table is showing is showing
23 is the revenue-requirement that would have been required in
24 2018 is approved, but it's collected in '19. So what
25 you're seeing is the impact of one full year as a foregone
26 revenue being collected in '19, in addition to the increase
27 that's required in both '18 and '19. So you are seeing a
28 compounding effect by effectively taking all of the '18

1 increase and '19 increase and lumping it into one year.

2 MR. LADANYI: So -- and I take your answer and I agree
3 with it. But what it really also shows is that the
4 customers will be seeing very large percent increase and
5 they're going to be very concerned about this, and some of
6 them will have difficulty in dealing with those increases.

7 Are you concerned about that? Do you have any
8 proposals of how to deal with that?

9 MR. ANDRE: Well, I mean -- I agree those are
10 significant increases, you know, if you attempt to collect
11 the 2018 foregone revenue all in one year. So in essence,
12 I think that's what this is, is disposition of the foregone
13 revenue, the 2018 foregone revenue over the 2019 year
14 period.

15 It may point to the need to dispose of any foregone
16 revenue over a longer period perhaps, or it may point to
17 the need for some form of bill impact mitigation.

18 I would note that in terms of the impact on total
19 bill, other than the R2 class, the impact -- and the
20 sentinel light class and the DGen class, but DGen, we're
21 already proposing bill mitigation for that.

22 So for the bulk of the classes, let's say, the impacts
23 are less than 10 percent total bill, which again the
24 Board's filing requirements would suggest that at total
25 bill impacts above 10 percent, you would need some form of
26 mitigation. And therefore, this clearly shows that if the
27 foregone revenue is to be disposed of in a single year in
28 2019, some form of bill impact mitigation would be required

1 for the R2 and the sentinel light classes.

2 And as I've said, we have already made similar
3 proposals on the DGen in terms of bill impacts.

4 So as I've said, what you're seeing here is the
5 combined impact of that 2018 foregone impact all being
6 collected in '19. When look at the average impact across
7 the five years, the bill impact is around --

8 MR. D'ANDREA: 3.4 percent.

9 MR. ANDRE: -- 3.4 percent. So yes, I agree that
10 foregone revenue and how to deal with foregone revenue is
11 an issue that the Board is going to have to consider in
12 this application.

13 MR. LADANYI: These are all my questions, Mr.
14 Chairman, and thank you for indulging me and allowing me to
15 go a few minutes longer than expected.

16 MR. QUESNELLE: Thank you for responding to our
17 concerns.

18 MR. SIDLOFSKY: Sorry, Mr. Quesnelle, if I could just
19 interrupt for a moment?

20 Mr. Ladanyi, I'm not sure. Did you file a table
21 electronically, Exhibit K1.5?

22 MR. YAUCH: We just sent it around this morning.

23 MR. SIDLOFSKY: Okay.

24 MR. YAUCH: I can file it.

25 MR. SIDLOFSKY: If you could, I think that would help,
26 just so it's in the web drawer. Thank you.

27 MR. QUESNELLE: Thank you. Mr. Stephenson?

28 **CROSS-EXAMINATION BY MR. STEPHENSON:**

1 MR. STEPHENSON: Good afternoon panel. My name is
2 Richard Stephenson, and I am counsel for the Power Workers'
3 Union. I don't have a compendium. There are very few
4 documents that I am going to take you to. I am going to
5 deal with this, I think, at a fairly high level.

6 Mr. D'Andrea, I think most of this is for you. I'm
7 going to be focusing on the question the selection -- the
8 ultimate selection of the Plan B modified investment
9 proposal, okay? And I take it you are the right person to
10 talk about that. Is that correct, Mr. D'Andrea?

11 MR. D'ANDREA: If you are looking for the plan details
12 themselves and what's behind the Plan B modified, it is
13 panel 5.

14 MR. STEPHENSON: No, I'm talking about the decision
15 that this was the correct approach, the rejection of the
16 other alternatives, that question. I take you are right
17 person for that?

18 MR. D'ANDREA: Let's try that.

19 MR. STEPHENSON: Okay. If I could get you first to
20 take a look at -- it's Exhibit I, tab 3. It's SEC 4.

21 This is the documents that went to the Ontario --
22 sorry, the Hydro One board of directors. And if I could
23 just take you to the -- it is the third page of that
24 document, which is the October 11, 2016 submission to the
25 board of directors.

26 I gather that at the time, your predecessor, Mr.
27 Hubert, was in charge ever this document; is that right?

28 MR. D'ANDREA: That's correct.

1 MR. STEPHENSON: Were you involved at all at that
2 time, or just subsequently?

3 MR. D'ANDREA: Subsequently.

4 MR. STEPHENSON: Okay. You are familiar with both the
5 process and the document generally, however, correct?

6 Okay. If you scroll through that document and
7 starting really at page 7, there is a discussion starting
8 at that page and following about Plan A and Plan B.

9 And just to be clear, the Plan A and Plan B that are
10 referenced here are the same Plan A and Plan B that are
11 discussed subsequently that are part of the four options,
12 correct?

13 MR. D'ANDREA: That's correct.

14 MR. STEPHENSON: And at the time of this document,
15 Plan A was recommended and Plan B was not recommended,
16 correct?

17 MR. D'ANDREA: That's correct.

18 MR. STEPHENSON: And obviously we know that the board
19 of directors had concerns about that, and there was a
20 revisit, correct?

21 MR. D'ANDREA: Correct.

22 MR. STEPHENSON: Okay. But starting at page -- it's
23 page 7 at the very bottom of the document, in the middle,
24 there is a chart there that outlines the basis of the fact
25 that Plan A was recommended and that Plan B was not
26 Recommended, okay. Do you see that?

27 MR. D'ANDREA: Okay.

28 MR. STEPHENSON: Okay. The concerns -- well, let's

1 put it this way. The merits of Plan A and the concerns
2 regarding Plan B, I take it that those merits and those
3 concerns were valid then and are valid now. It's -- there
4 were other factors that led to the change in thinking,
5 correct?

6 MR. D'ANDREA: Well, it was the factors that we tried
7 to balance; again, customer needs, system requirements and
8 rate impacts.

9 MR. STEPHENSON: Fair enough. But what's written down
10 in this document is accurate? Those were the validly
11 stated merits of Plan A and the validly-stated concerns of
12 Plan B. Leaving aside the issues that were ultimately
13 decided, but as far as this document goes, Hydro One is
14 still of the view that it is a fair and accurate
15 description of those -- of the matters set out therein?

16 MR. D'ANDREA: That's correct.

17 MR. STEPHENSON: Okay. And just to be clear as to
18 where these options sit on the spectrum, the difference
19 between Plan B and Plan B modified was that Plan B had
20 slightly more spending embedded in it.

21 There was more activity embedded in it than in Plan B
22 modified, correct?

23 MR. D'ANDREA: That's correct, there was more capital.

24 MR. STEPHENSON: And so directionally, the concerns
25 that are in this document with respect to Plan B are all
26 present in Plan B modified as well, except to a slightly
27 greater degree; fair?

28 MR. D'ANDREA: Fair -- as compared to Plan A?

1 MR. STEPHENSON: Well, no, Plan B modified relative to
2 Plan B. Plan B modified has got -- all of the concerns
3 expressed in this document about Plan B exist with respect
4 to Plan B modified, correct?

5 MR. D'ANDREA: No, the concerns were with Plan A,
6 Right? Plan A was -- we'll call it too much for example,
7 and I'm trying to figure out what you are comparing it to.

8 MR. STEPHENSON: Let's take a step back. In this
9 document, the one we're looking at right now, Plan A was
10 the recommendation, correct?

11 MR. D'ANDREA: Correct.

12 MR. STEPHENSON: There wasn't concerns about Plan A in
13 this document. Plan A was the recommendation, correct?

14 MR. D'ANDREA: Correct.

15 MR. STEPHENSON: Okay. Plan B was not recommended,
16 correct?

17 MR. D'ANDREA: Correct.

18 MR. STEPHENSON: And there were concerns expressed in
19 this document which justified the fact that it was not
20 recommended?

21 MR. D'ANDREA: Correct.

22 MR. STEPHENSON: Okay. And you've said already Hydro
23 One stands by this document as far as it goes, correct?

24 MR. D'ANDREA: Correct.

25 MR. STEPHENSON: Okay. All I want now to deal with is
26 that the ultimately approved proposal was Plan B modified.

27 MR. D'ANDREA: Correct.

28 MR. STEPHENSON: Which has less activity and less

1 spending.

2 MR. D'ANDREA: Correct.

3 MR. STEPHENSON: Okay. So the concern expressed in
4 this document about Plan B was that it didn't have enough
5 activity and it did didn't have enough spending, correct?

6 MR. D'ANDREA: Correct.

7 MR. STEPHENSON: Okay. And so all of those concerns
8 would also be true of Plan B modified, fair?

9 MR. D'ANDREA: Correct.

10 MR. STEPHENSON: Okay. Now, we know, fast-forward,
11 the Board has got concerns about Plan A and they have
12 concerns about Plan B, which leads to Plan B modified,
13 correct?

14 MR. D'ANDREA: Correct.

15 MR. STEPHENSON: Okay. And the Board's concern is
16 fundamentally a rate impact concern and a bill impact
17 concern, fair?

18 MR. D'ANDREA: Well, they looked at reliability as
19 well.

20 MR. STEPHENSON: I understand that, but they -- and
21 they struck a balance, fair?

22 MR. D'ANDREA: Correct.

23 MR. STEPHENSON: But just to be clear, Plan B modified
24 results in less reliability than either Plan B or Plan A,
25 right?

26 MR. D'ANDREA: Correct.

27 MR. STEPHENSON: But the Board considered it to be an
28 acceptable trade-off, fair?

1 MR. D'ANDREA: Fair.

2 MR. STEPHENSON: Now, at this Board there has been a
3 lot of discussion over many, many hearings about the
4 deferral of capital spend and OM&A on system maintenance,
5 and from time to time Hydro One has come in looking for
6 specifically spending to make up for essentially concerns
7 regarding the system -- the robustness of the system and
8 prevent system degradation; you are familiar with that
9 history, correct?

10 MR. D'ANDREA: Yes.

11 MR. STEPHENSON: And whenever you had -- the
12 consequence of going for Plan B modified is that certain
13 spending that was proposed and recommended under Plan A is
14 deferred; correct?

15 MR. D'ANDREA: That's correct.

16 MR. STEPHENSON: And in fact, that was one of the
17 risks identified in Plan B; correct?

18 MR. D'ANDREA: Correct.

19 MR. STEPHENSON: Okay. So the bottom line is that all
20 of that deferred spending is going to be -- let's put it
21 this way: The deferred work, the deferred work is going to
22 be done sooner or later; it's just going to be done,
23 relatively speaking, later, correct?

24 MR. D'ANDREA: Well, we were asked to look at pacing
25 of our investment, so, yes, that's what we were doing.

26 MR. STEPHENSON: It's going to happen later, correct?

27 MR. D'ANDREA: Correct.

28 MR. STEPHENSON: Okay. So the first point is:

1 Doesn't that create an intergenerational equity problem
2 that future ratepayers are going to be faced with the cost
3 of that work that really should be done now?

4 MR. D'ANDREA: I can't say what will happen in the
5 future, because we are trying to continuously be productive
6 and find efficiencies, so it is our goal to manage those
7 investments, manage the pacing, and find better ways to do
8 the work.

9 MR. STEPHENSON: Okay. Mr. D'Andrea, let's get real
10 here. Are you telling me that future ratepayers are going
11 to get this work for free because you are going to be that
12 much more efficient? Let's get real.

13 MR. D'ANDREA: I didn't say it was for free.

14 MR. STEPHENSON: Okay. So they are going to pay for
15 it. So doesn't that create an intergenerational equity
16 problem? You are asking later people to pay for work that
17 should be done now.

18 MR. D'ANDREA: Well, we have been asked to look at --
19 we have to strike the right balance, and we would have to
20 do the same decision in the future, so we would have to
21 look at the rate impact and the investment and the
22 reliability. Are we deferring -- are we --

23 MR. STEPHENSON: Well, I understand that --

24 MR. D'ANDREA: -- deferring the work? Yes, we are
25 deferring --

26 MR. STEPHENSON: Right. Okay.

27 MR. D'ANDREA: -- work --

28 MR. STEPHENSON: But for the rate impact you'd be

1 doing it now, right? There is no doubt about it.

2 MR. D'ANDREA: Well, most of the rate increase that is
3 we are seeking for are capital-related. They are already
4 capital-related. If you look at what we've done in terms
5 of what's driving our rates, our OM&A is generally flat,
6 less than inflation --

7 MR. STEPHENSON: I -- I --

8 MR. D'ANDREA: -- so it is a capital issue.

9 MR. STEPHENSON: -- agree with you --

10 MR. D'ANDREA: It is a capital issue.

11 MR. STEPHENSON: It is this incremental amount, and
12 the question is: Who pays for it? Is it paid for by
13 current ratepayers or is it paid for by future ratepayers?
14 And you've made a choice. It's future, yes?

15 MR. D'ANDREA: To the extent we've deferred it, yes.

16 MR. STEPHENSON: Okay. So part of the Board's concern
17 about rate impact, I take it, arose by virtue of the
18 feedback that Hydro One received when it did its customer
19 consultation about its proposed planning; is that fair?

20 MR. D'ANDREA: That's fair. Our customers were
21 concerned about price.

22 MR. STEPHENSON: Okay. Now, all of that customer
23 consultation, and I believe the Board decision, occurred
24 before the implementation of the Fair Hydro Plan; is that
25 correct?

26 MR. ANDRE: Yes, the Fair Hydro Plan was implemented
27 July 2017, and would have been discussions about what that
28 might look like and some initial information on what that

1 might look like came out in early '17, so --

2 MR. STEPHENSON: The Board might have been aware of
3 that, but that certainly wasn't part of the customer
4 consultation, fair?

5 MR. LOPEZ: You are correct. At the time of the
6 consultation, the Fair Hydro Plan was not at a point where
7 it could have been disclosed, so they would not have been
8 aware.

9 MR. STEPHENSON: Right. Just before I move on to
10 that, just, there was something I needed just to tidy up.

11 This business about Plan B modified, we're now almost
12 halfway through 2018. Am I correct that Plan B modified is
13 what you are, in fact, ruling out in terms of your work
14 program already in 2018?

15 MR. D'ANDREA: That is my understanding.

16 MR. STEPHENSON: And that's how you are going to
17 proceed until you are told otherwise?

18 MR. D'ANDREA: That's correct.

19 MR. STEPHENSON: Okay. So we asked a question, an
20 interrogatory about the effect of the Fair Hydro Plan, and
21 I don't think you need to turn this up, but for the record,
22 it's tab -- Exhibit I, tab 3, PW number 1. And in response
23 to that, you told us that your R1 and R2 rate classes are
24 -- get distribution rate protection at the Fair Hydro Plan;
25 correct?

26 MR. ANDRE: All customers -- yes, distribution rate
27 protection, yes, that applies to Hydro One's R1 and R2
28 customers, as well as other rural customers and other

1 utilities.

2 MR. STEPHENSON: Right. You are one of the utilities
3 that's specifically prescribed by the regulation, correct?

4 MR. ANDRE: Yes, that's correct.

5 MR. STEPHENSON: Okay. And the effect of that is that
6 the bills that those customers receive -- any changes in
7 those bills for the duration of the Fair Hydro Plan will be
8 what is prescribed in that regulation, correct? That is
9 how their bills will look.

10 MR. ANDRE: That is how the distribution -- the base
11 distribution rates component of their bill will be, yes.
12 Those changes will be as prescribed per the regulation.

13 MR. STEPHENSON: And the outcome of this proceeding
14 will not determine what their bills look like on that base
15 distribution rate, correct?

16 MR. ANDRE: Yes, that's correct, so the bill impacts
17 that we show in the application per the Board's filing
18 requirement show the change in distribution rates as a
19 result of what we proposed, but as Mr. Stephenson said, in
20 terms of what customers will actually see on their bill,
21 any increase in base distribution rates that we show in
22 this application wouldn't actually appear on customers'
23 bills as a result of the distribution rate protection for
24 Hydro One's R1 and R2 customers.

25 MR. STEPHENSON: And technically speaking, those rates
26 aren't frozen or those bills aren't frozen under the
27 regulation, but directionally that's what's going on, fair?

28 MR. ANDRE: Yes, the bills aren't frozen. We were

1 taking about the distribution rate protection?

2 MR. STEPHENSON: Yes.

3 MR. ANDRE: Is limited per the regulation, and there
4 is some mechanism to potentially increase that, so, yes, so
5 there is nothing frozen, but they should go up very slowly.

6 MR. STEPHENSON: And in addition to that, those same
7 customers, the R1 and R2, may have -- may get other -- let
8 me back it up.

9 There are a variety of other savings that are passed
10 on to current consumers under the Fair Hydro Plan, and
11 those are outlined in this interrogatory response, correct?

12 MR. ANDRE: Yes, there's distribution -- or
13 electricity prices have come down, which is a benefit to
14 all customers under regulated price plans, and some of the
15 regulatory charges have come down, yes.

16 This interrogatory lays out all of the different
17 impacts from the Fair Hydro Plan on customers.

18 MR. STEPHENSON: But there is one that is not
19 indicated in there that I understand that these customers
20 will have the benefit of. I want you to confirm that I'm
21 right about this.

22 As I understand it, again depending upon what happens
23 to the rate of inflation and, in particular, depending upon
24 what happens to Toronto Hydro distribution rates because
25 they are the prescribed proxy customer under the act, all
26 customers in Ontario may get reductions in their commodity
27 costs in the future to offset increases in distribution
28 rates, correct?

1 MR. ANDRE: I'm not sure about your statement about to
2 "to offset increases in distribution rates." Yes, the
3 electricity prices changed per the Fair Hydro Plan
4 regulation. So any changes to electricity prices that come
5 out of that would apply to all customers in Ontario.

6 But I'm not sure I see your link between that and
7 distribution prices. When it comes to distribution prices,
8 there is a specific regulation that deals was that.

9 MR. STEPHENSON: Absolutely. All I'm saying is that
10 -- let me back it up.

11 Under the Fair Hydro Plan, commodity costs no longer
12 move around; they are prescribed by statute, correct, for
13 people on standard service?

14 MR. ANDRE: Yes, if they are linked to that proxy, to
15 the proxy customer's bill, yes.

16 MR. STEPHENSON: So if Toronto Hydro's distribution
17 rates go up more than the rate of inflation, as I
18 understand it, the commodity cost for all Ontario customers
19 under that prescribed commodity cost will decrease by the
20 difference between the Toronto Hydro distribution increase
21 and inflation, correct?

22 MR. ANDRE: Yes, I see what you're saying now. Yes,
23 that's my understanding of how it would work. I think -- I
24 don't know if we've had an occasion to see that being
25 implemented. In fact, I do -- it has, the first change...

26 MR. STEPHENSON: Coming up?

27 MR. ANDRE: No, the first change came up in May where
28 there was reference to it. So yes, I think in principle I

1 would agree with you, Mr. Stephenson.

2 MR. STEPHENSON: So again, that exerts a downward
3 influence on R1 and R2 customer bills, correct?

4 MR. ANDRE: Certainly, yes. They pay electricity, so
5 to the extent that electricity prices are reduced for all
6 customers in Ontario, then R1 and R2 customers would also
7 see that benefit.

8 MR. STEPHENSON: Okay. We also asked you in terms of
9 the significance of R1 and R2 classes to your total
10 customer base and revenue base, and you told us that in
11 terms of number of customers, R1 and R2 amount to,
12 combined, 60 percent of your total customers, correct?

13 MR. ANDRE: Yes, that's correct.

14 MR. STEPHENSON: And 57 percent of your distribution
15 revenue, correct?

16 MR. ANDRE: Yes, that's correct.

17 MR. STEPHENSON: And that's for 2016. Is there any
18 reason to expect any material change in those proportions
19 for 2017-'18 going forward?

20 MR. ANDRE: No, I mean, to the extent of -- you know,
21 depending how the elimination of the seasonal class is
22 implemented, that might result in significant numbers of
23 customers moving into the R1 and R2 classes, but -- so
24 other than that that proviso, I would say yes, those
25 numbers aren't going to change materially.

26 MR. STEPHENSON: If anywhere, the numbers are if going
27 to get higher, is that fair?

28 MR. ANDRE: Yes, that would be fair.

1 MR. STEPHENSON: Okay. So here's where I'm going
2 Here. You know, 57 percent of your distribution revenue,
3 that's a lot. It is the majority of your distribution
4 revenue.

5 If you had chosen to go to Plan A relative to Plan B
6 modified, those 60 percent of your customers, that 57 would
7 not -- they would not experience that on their bills during
8 the period of the Fair Hydro Plan, correct?

9 MR. ANDRE: Yes, that's correct.

10 MR. STEPHENSON: You would get that revenue, but those
11 customers wouldn't see it. They would see it however Fair
12 Hydro Plan is going to be recovered downstream, right?

13 MR. ANDRE: Yes, that additional revenue would be
14 recovered through the Fair Hydro Plan mechanisms, which
15 would mean it would come from -- would be funded through
16 the government.

17 MR. STEPHENSON: Didn't you think that that was
18 something that you ought to take into consideration?

19 Objectively, Plan A was the preferred plan but for the
20 rate impact consideration. You had -- you know, 60 percent
21 of your customers aren't going to be paying it. Wasn't
22 that a relevant consideration?

23 [Witness panel confers]

24 MR. D'ANDREA: I think, as was pointed out, we didn't
25 know at the time. So it wasn't a consideration; that came
26 out after.

27 MR. STEPHENSON: I get that, but you now -- you filed
28 your application, and I appreciate that at the time you

1 filed your application, you didn't have it.

2 But applications get amended all the time. This is a
3 pretty material change in the substrata of this
4 application. Your primary concern -- the Board's primary
5 concern is rate impact.

6 You've got 60 percent of your customers that are
7 facing no rate impact. You didn't take a re-look?

8 MR. ANDRE: I mean, as you've mentioned 60 percent --
9 40 percent of our customers would see the impact of any
10 increases in revenue requirement, and the Board's filing
11 requirements require us to demonstrate what the impact
12 would be of -- separate the Fair Hydro Plan, what the
13 impact would be on rates.

14 So I think those are also valid considerations.

15 MR. STEPHENSON: I understand that. I'm not
16 prejudging the outcome of your analysis. I'm just asking
17 you the question: Did you ask yourself the question? And
18 you say, you know what? We decided to do X. The world has
19 changed. Maybe X isn't the right answer any more. Maybe
20 we should do something different.

21 Did you ask that question?

22 [Witness panel confers]

23 MR. ANDRE: Mr. Stephenson, my answer would remain as
24 I've said. I agree that the impact on R1 and R2 customers
25 are mitigated.

26 The impacts on distribution rates are mitigated by the
27 Fair Hydro Plan. But we have 60 percent of our other
28 customers that would see the impact of increased revenue

1 requirement, and as Mr. D'Andrea has said, I mean, there's
2 three things that we are considering: the needs of our
3 system, the needs of our customers, the preferences of our
4 customers and the impact that those two things have on
5 rates.

6 MR. STEPHENSON: I think you meant 40 percent of your
7 customers there?

8 MR. ANDRE: Sorry, 40 percent.

9 MR. STEPHENSON: Yes. But wouldn't you agree with me
10 that at least for R1, R2, the 60 percent of your customers,
11 57 percent of your revenue, they get the system they need
12 and deserve, right? That's what Plan A says, and they are
13 not facing the rate impact.

14 Like, who puts the hand up for those guys and says
15 they're better off. You know what, maybe we should do the
16 right thing for those people. I understand that our other
17 customers are going to face some costs, but why do the
18 other customers -- why does the tail wag the dog? Why is
19 the 40 percent governing for the 60 percent?

20 MR. ANDRE: It's -- Mr. Stephenson, my answer isn't
21 going to change. As I said, they represent 60, but the
22 other 40 percent of the customers see the impact.

23 It's the answer that I've given. I'm not sure that I
24 can give you anything new.

25 MR. STEPHENSON: Okay, so the 60 percent are the
26 losers here.

27 Okay. One other -- a couple other little things just
28 to deal with. You -- the application indicates the

1 differential rate impact between Plan B modified and Plan B
2 and Plan A, but I didn't see in the application -- and
3 maybe I missed it. There is a lot in there -- the revenue-
4 requirement differential between Plan B modified and Plan B
5 and Plan A.

6 There must -- there must be a number there, because
7 you couldn't have done the rate impact differential without
8 it. And I guess maybe if you can just give me an
9 undertaking, like, it may be in the application already,
10 but if it's not you can tell us what the revenue-
11 requirement differential was?

12 MR. D'ANDREA: We'll take an undertaking to get it.

13 MR. STEPHENSON: Thank you.

14 MR. SIDLOFSKY: J1.2.

15 **UNDERTAKING NO. J1.2: TO PROVIDE THE REVENUE-**
16 **REQUIREMENT DIFFERENTIAL.**

17 MR. STEPHENSON: Let me finish with this. One of the
18 criticisms of the Fair Hydro Plan -- it's just from the
19 public media, and it strikes me a fair criticism of it --
20 is that, you know, sooner or later you've got to pay the
21 piper, that insofar as people are paying -- or aren't
22 seeing bill increases now, sooner or later somebody is
23 going to have to pay for them downstream; you've heard that
24 criticism, fair, correct?

25 MR. ANDRE: Yes.

26 MR. STEPHENSON: So -- and we don't know exactly when
27 that's going to happen, we don't exactly know how it's
28 going to happen, we don't exactly know from whom it's going

1 to happen, but here's the concern I have for you: You've
2 deferred some spending. We all agree it's going to have to
3 be done sooner or later, and when it's done later it is
4 going to have to get paid for. So aren't we -- isn't there
5 a very serious risk that future ratepayers are going to
6 face a double-whammy downstream? Number one, they're going
7 to have to pay for the cost of your deferred work, and just
8 as they're doing that, they're going to have to pay the
9 cost of the deferred Fair Hydro Plan costs. Like, isn't
10 that a real possibility?

11 [Witness panel confers]

12 MR. D'ANDREA: You talk about risk, Mr. Stephenson.
13 Yeah, there's a risk, but we don't know, again, in terms of
14 how we fund work and how we plan work and what types of
15 investment we would need to make, so there is some
16 uncertainty around that, and we don't know how ultimately
17 the Fair Hydro Plan will be dispositioned, so is there a
18 risk? Yes, but we can't know what that risk is today,
19 can't quantify that risk.

20 MR. STEPHENSON: Okay, so here's the problem that I'm
21 -- I think it's -- it is as obvious as the nose on my face,
22 anyway -- is Hydro One backs off and mitigates its current
23 spending plans because of rate impact concerns. Exactly
24 when in the future does Hydro One think that paying for
25 this stuff is going to be more tolerable in the eyes of its
26 customers? Like, aren't they going to be -- aren't
27 customers going to be even more reluctant to pay for it in
28 the future? Like, when are they going to say, Okay, now is

1 the right time? When is the right time?

2 MR. D'ANDREA: We don't know what the right time is,
3 and when we get to that point we may be faced with
4 different options like rate-smoothing options. We just
5 don't know.

6 MR. STEPHENSON: No, but, sir, you can do rate
7 smoothing now.

8 MR. D'ANDREA: We wouldn't qualify for rate smoothing
9 now.

10 MR. STEPHENSON: What makes you think you would
11 qualify then?

12 MR. D'ANDREA: Well, I would have to see what the size
13 of the rate increase is.

14 MR. STEPHENSON: So you are just kicking this problem
15 down the road with absolutely no plan on how to deal with
16 it and no expectation that life is going to be any more
17 tolerable; isn't that right?

18 MR. D'ANDREA: Well, no, again, we are trying to
19 balance the needs today and in the future so we can manage
20 to run the system with a Plan B modified, and so when we
21 file our next application, in combination with
22 transmission, we will look at this all over again and look
23 at what the plan investment is.

24 MR. STEPHENSON: Okay, those are my questions. Thank
25 you very much, panel.

26 MR. QUESNELLE: Thank you, Mr. Stephenson.

27 Mr. McLeod, I take it you will be able to join us
28 after lunch?

1 MR. McLEOD: Absolutely.

2 MR. QUESNELLE: All right. Thank you. We'll
3 reconvene at 1:45. Thank you.

4 --- Luncheon recess taken at 12:45 p.m.

5 --- On resuming at 1:48 p.m.

6 MR. QUESNELLE: Mr. McLeod?

7 MR. McLEOD: Thank you, Mr. Chair.

8 **CROSS-EXAMINATION BY MR. MCLEOD:**

9 Good afternoon, panel. My name is Michael McLeod and
10 I'm with the Quinte Manufacturers Association.

11 I only have a few interrogatories that actually I need
12 some clarification on to clear the record for us. And if I
13 could have -- Erin, if you could pull up BOMA number 32.
14 Thank you.

15 I just want to take you through a couple of things
16 here just so I'm clear, because I got a little confused on
17 what I think I was reading, and it would be helpful if you
18 could just clarify these things for me.

19 It is interesting in the first question there, that
20 says:

21 "Please provide the strategic direction from
22 HONI's board of directors and executive
23 leadership team, and any written responses,
24 reports, and guidelines."

25 And the response to the reference there was to Exhibit
26 I3, SEC 101. But the last sentence says:

27 "There was no written strategic directive
28 provided."

1 The question was to provide strategic direction from,
2 so I got the sense that that was a bit more generic about
3 strategic direction from Hydro One's board of directors.
4 But the response was there was no written strategic
5 directive.

6 So I just wanted to get clarification. Strategic
7 direction, so the direction that the corporation is
8 supposed to be going versus the directive that's referred
9 to here. Can you help me with that?

10 MR. LOPEZ: Can you point me to exactly where on the
11 interrogatory it is?

12 MR. McLEOD: So the interrogatory in A, it says
13 "Please provide the strategic direction," and then the
14 response is on the last sentence: "There was no written
15 strategic directive."

16 So when we looked at that, we said one's a direction,
17 the direction the corporation is going, and the response
18 was to a directive.

19 I'm just trying to reconcile the difference there
20 because I'm wondering if there was the focus towards the
21 changes we talked about a little bit this morning from Plan
22 A to modified Plan B. It just got a little confusing.

23 MR. LOPEZ: I'm trying to get the context here.

24 The response appears to be more towards do they make a
25 specific decision or a set of guidelines that the budget
26 was -- or the filing was based on, and the answer is no to
27 that.

28 The company comes up with that. They bring up

1 recommendations to the board. The board look at it and
2 reviews it, and then provides some feedback. We heard that
3 earlier this morning about customer rates, and that's when
4 that occurs. There is no directive at the outset to say
5 customer rates cannot be impacted by, or anything like
6 that.

7 MR. McLEOD: Right. So when you look at the business
8 plan where it says what the values of the corporation, for
9 example, were, some of those things are very clear,
10 obviously from a higher level. The directive is not
11 pointed to any of those specifically. In other words, it
12 wasn't a directives I guess is what I'm getting at.

13 MR. LOPEZ: No, there was no directive.

14 MR. McLEOD: Okay, that clarifies that for me, that's
15 helpful.

16 And then in B, there is a reference to non-investment
17 alternatives. And I got a little bit confused in here.
18 This is what I think, and please correct me if I'm wrong,
19 that when we're talking about non-investment alternatives,
20 we're saying -- or you're saying in your response that
21 Hydro One doesn't look at any of these things, and these
22 are really IESO responsibilities.

23 [Witness panel confers]

24 MR. ANDRE: So, Mr. MacLeod, perhaps you could just
25 repeat your question one more time, and I'll try to give
26 the best answer that I can.

27 MR. McLEOD: Sure, and I'll put it in a little bit of
28 context.

1 So our members, no surprise, are very, very, very
2 concerned because they are always operating on sort of the
3 edge of being in business and out of business. And we have
4 significant players, as you probably know, in the
5 Belleville and Trenton area.

6 One of the major concerns is when they are looking at
7 non-investment alternatives -- and where I'm going at with
8 this, could lead to DERs for example, because that comes up
9 in conversations we have.

10 So when we're looking at non-investment alternatives
11 -- and I'm thinking for this, as I say, as non-wires
12 stuff -- from our perspective, you can't look at that just
13 plainly and say it's non-wires. It is all connected one
14 way or the other, and we talked about that this morning.

15 So we need some clarification around what this was
16 actually trying to say so that we're clear.

17 MR. ANDRE: Right, and so I do know that as part of
18 investment plan considerations, we will look, if it's
19 appropriate, at non-wire solutions. For example, are there
20 things that we can do to increase CDM so that it reduces
21 the load on a particular station and perhaps defers the
22 investment needs for that station.

23 So I do know that some of our investment plans, where
24 appropriate, would have included non-wires considerations.

25 MR. McLEOD: So we know then because the Bellville TS
26 is the big TS in our neighbourhood, and I can say this and
27 I think it's appropriate to say it here, is for the most
28 part, our association members are appreciative of the

1 service they get from Hydro One from that area. There is
2 no question about being appreciative of the service and
3 they like it.

4 But these kind of things become a bit of a concern
5 when they're starting to look at, as I say, what other
6 alternatives if they can avoid energy costs, either
7 distribution costs or transmission costs or electronic
8 costs, they're looking at that.

9 So when we're looking at this, we're kind of saying is
10 this kind of held back and it's out of the picture for now,
11 we can't talk about it, or is it part of it. Because if
12 you go through the DSP, you can see references where it
13 talks about these things and it comes back in and says
14 okay. But there was just this sort of vagueness around it
15 that we wanted that clarification on.

16 So when we saw this, especially from BOMA, we said,
17 oh, maybe this is actually something else.

18 MR. ANDRE: No, I think it is referring to non-wires
19 alternatives. I know that the IESO when they are looking
20 at bigger regions will look at non-wires type of
21 investments. But I read this response to say that even
22 within our own distribution plan, where it's appropriate
23 for a particular investment, we will look at if there is
24 non-wires options that will help meet the need.

25 MR. McLEOD: I'm going to jump ahead just a little bit
26 because...

27 MR. ANDRE: And really, just to be clear, that's
28 probably as far as I can go. I think for a detailed

1 response around this, you'll need to speak to panel 5 where
2 they'd be able to give you more detail.

3 MR. McLEOD: Fair enough then. That's -- if I could
4 have Staff interrogatory 123, please?

5 MR. QUESNELLE: Mr. Vegh, I note that on that IR
6 response, it was Mr. Lopez that was the author of that
7 interrogatory response, was he not?

8 MR. VEGH: I think that's right and the interrogatory
9 response did refer to the DSP process. So there was a
10 panel that Mr. Andre referred to on the DSP, so for
11 specific investments, that's more a more effective panel
12 for these questions.

13 MR. QUESNELLE: I understood. Just that Mr. Andre
14 also suggested that that's as far as he could go in
15 interpreting his response, and I think the author should be
16 able to go further perhaps.

17 MR. LOPEZ: Yes, sorry. At a high-level I understood
18 what it was getting at. But the difference between a non-
19 wire investment and specifics around what the -- what was
20 being asked there, I don't know how they could pair one
21 against the other and how it would be included.

22 That's why I was suggesting it should go to panel 5,
23 where they can say here's how we do that trade-off.

24 MR. QUESNELLE: I understand. That's helpful. Thank
25 you.

26 MR. McLEOD: Thank you, Mr. Chair.

27 Staff's interrogatory 123 is -- we found it very
28 helpful and focus on productivity and continuous

1 improvement, productivity savings is very important to us
2 and useful.

3 What's interesting, though, in interrogatory item C or
4 clause C, it says:

5 "What assurances..."

6 And it is the word "assurances" I'm looking at:

7 "...do ratepayers have..."

8 And I'm thinking about our members in this case:

9 "...have that Hydro One will achieve a forecasted
10 savings or forecast savings?"

11 And we see in the plan that you responded to that the
12 savings are embedded in that, that's great, and then we go
13 to the response in C at the back end. There's a number of
14 things here I just want to clarify and make sure we're
15 clear.

16 So the response is "ratepayers are assured through
17 Hydro One's commitment", so this is in our view Hydro One's
18 guarantee that the forecasted savings and targets are going
19 to be met, and the commitment it says in here is
20 demonstrated, and this is where we need some clarification,
21 the enhanced governance and visibility.

22 Mr. Lopez, what does it mean, "enhanced governance",
23 and I'm going to ask, is that governance oversight by the
24 Board, by the executive leadership team, or something else?

25 MR. LOPEZ: All of the above. It's all of the above,
26 so if I take a step back, Hydro One started their
27 productivity push in late 2015, and we had made some
28 strides forward in 2016, saving around \$24 million in 2016,

1 but it was still in its early infancy. In 2017 it is
2 significantly larger, so we grew that \$24 million to
3 \$118 million in that period of time. How we did that was
4 by improving the governance, the transparency around
5 productivity, how it's recorded, how it's tracked, how we
6 hold people accountable, all the way from when we
7 identified the initiative through to incentives, so it is
8 linked to our team's scorecard, so people's pay is at risk
9 if these targets are not met.

10 Their budgets are adjusted. As soon as the
11 productivity initiative is approved, their forecasts are
12 reduced by those numbers, so now they're on the hook to
13 deliver those outcomes.

14 MR. McLEOD: Okay. So that's what I wanted to get to,
15 then, in my next question when we were talking about
16 visibility. So in terms of visibility, is that reporting?
17 Is that what that means?

18 MR. LOPEZ: Yes, it does.

19 MR. McLEOD: Okay. So it is reporting internally?

20 MR. LOPEZ: And externally. You will notice in our
21 fourth-quarter report or the annual report for the first
22 time we disclosed productivity outcomes to all
23 stakeholders, and that's in an externally published report.

24 MR. McLEOD: And then as we just go down the items
25 here, embedded forecast savings in its business plan, okay,
26 we get that. What's the achievement risk on Hydro One's
27 net income and not on ratepayers? So we understand that.
28 So the risk -- and Mr. D'Andrea, maybe you are the risk guy

1 here -- is that risk that it's referring to here a risk
2 that would be considered at the Board level?

3 MR. D'ANDREA: Simple answer is yes.

4 MR. McLEOD: Okay. So they would be aware of any of
5 these changes, if it's falling off and not going to meet
6 the productivity targets and starting to drift, that Board
7 through the leadership team or whatever would get to see
8 these things and they would know, because risk is a big --
9 obviously a big --

10 MR. D'ANDREA: They would know where we are on our
11 productivity targets.

12 MR. McLEOD: Okay.

13 MR. LOPEZ: Yes, the HRC, the human resources
14 committee of the board, reviews the team scorecard, and
15 that productivity number is right there, and we report
16 where we are, the date, and towards the end of the year and
17 so on.

18 MR. McLEOD: You said, Mr. Lopez, the penalty can be a
19 financial penalty to the team members --

20 MR. LOPEZ: Yes, to --

21 MR. McLEOD: -- group?

22 MR. LOPEZ: -- their income.

23 MR. McLEOD: Okay. And I think I've answered that.

24 So who -- just one other -- just clarification matter
25 here, then. How often is the scorecard then reviewed and
26 moved up the ladder to where it's actually going to --
27 somebody is going to say, start flagging things. Like, is
28 there a lag -- I guess what we are looking for: Is there a

1 lag in there before it actually gets reported?

2 MR. LOPEZ: So to get reported to the Board. So all
3 the way to the Board level is one --

4 MR. McLEOD: Well, I think it's -- I think there's
5 incremental steps here. Like, is it a minor thing or major
6 thing? This is where we're having some trouble trying to
7 figure out, how is it moving through so the message gets to
8 the top, whatever the top is in this case, that things have
9 to change; it is going offside because our members don't
10 want to receive the impacts ultimately at the end of the
11 day. I mean, that's the thinking.

12 MR. LOPEZ: Absolutely. Yeah, so it is reported on
13 monthly at the senior executive level within Hydro One, and
14 it will go to the Board once a quarter as part of our
15 quarterly review of financial results.

16 MR. McLEOD: Okay. Good. Thank you.

17 And if we could turn to VECC number 23, please. And
18 this talks about -- you've attached the consolidated,
19 modified -- or updated consolidated business plan. I just
20 want to look at a couple of things in here that came up
21 that I want to have a look at. And all of this is kind of
22 tied together.

23 If we look under a strategy section. So right there.
24 That's perfect. We just wanted to have a couple look at a
25 couple things here that are of interest.

26 In the second paragraph it says:

27 "Hydro One's strategic vision and business goals
28 are consistent with and included in business

1 plans..."

2 Okay. I understand that, and it makes sense:

3 "...and the strategy will involve a number of
4 strategic initiatives."

5 And it has the four there, and that's fine.

6 I need some clarification -- and it is all redacted
7 below -- about diversification of entering commercial
8 business, and we understand that, but what kind of
9 commercial businesses are we entering into? And I'm going
10 to bring this up, because it did come up in a conversation
11 years ago in Ontario Hydro. Old Ontario Hydro got involved
12 in purchasing a utility in South America and buying some
13 forest, and all fine and good for back there -- back then,
14 but it obviously raises a concern when somebody is thinking
15 back on that and says, Well, what did this mean? So we
16 just want to get a sense around, obviously the redacted
17 part is not an issue. I just want to know what you're --
18 how can we put this in a context that says, Okay, this
19 makes some sense?

20 MR. LOPEZ: So the first response would be that if
21 there is any commercial business that Hydro One enters
22 into, that would be Hydro One Limited, it would not be
23 Hydro One Networks Inc., which is the regulated company.
24 That's why it's redacted here. But to put everyone else's
25 mind at risk (sic) is Hydro One Limited is effectively a
26 regulated company, and it would be looking at similar type
27 investments with very low risk along the lines that we have
28 today. So it wouldn't be stepping out, I heard you say, I

1 think it was South America or somewhere. We absolutely
2 would not be doing that. Nothing along those lines.

3 MR. McLEOD: Okay. Now, Hydro One's commercial
4 orientation -- of course, our members are all commercial
5 enterprises -- means a company is going to be focused on
6 customers, demonstrate corporate accountability,
7 performance outcomes, all good stuff. That's where it all
8 fits.

9 And it talks about managing relationships with key
10 stakeholders, including customers, so the members obviously
11 are customers of Hydro One, and how -- and you might not
12 know this, and only because you weren't sure which area it
13 would go into, but because, Mr. Lopez, your name was on
14 here, how do we be more engaged with Hydro One on this type
15 of issue? And the reason why I say that where I mentioned
16 earlier that service to the plants is great from Hydro One
17 employees, it's terrific, it is a great relationship, but
18 when we're talking about these kinds of things where there
19 might be some concern raised about Hydro One doing
20 something that didn't involve -- I'm trying to couch this
21 in a manner that says our members weren't consulted, and
22 I'm kind of -- it is a broad statement that way, so I'm
23 trying to get a handle on that, because it says "key
24 stakeholders, including customers, would be managing", so
25 it is beyond just the wires customers and actually goes to
26 what other cost drivers beyond just normal service to the
27 plants might come back where, say, our members weren't
28 consulted? Not the question.

1 MR. LOPEZ: Yes, I'm not sure I understand the
2 question. So when you say "members", I mean, this is a
3 general statement to say that Hydro One is not going to do
4 something that -- where we haven't consulted in an
5 appropriate manner, so I'm just trying to understand --

6 MR. McLEOD: Fair enough. And I think the concern
7 from our end was we haven't felt that there's been good
8 consultation, and maybe that's partly on our side and maybe
9 not on the other side, so when it states in here, quite
10 clearly, because it is a business plan, the question comes
11 in how they do this -- how does Hydro One do this if they
12 haven't done it before? It is as simple as that, I guess.

13 MR. LOPEZ: I think perhaps I'm more financially
14 based. I think the person on the panel that is most
15 appropriate to speak to that would be the customer panel,
16 and Ferio Pugliese I think is appearing, and he would
17 absolutely love to take that question.

18 MR. McLEOD: I actually thought that's where this
19 should go, but that's okay. Thank you, Mr. Chair. Those
20 are my questions.

21 MR. QUESNELLE: Thank you, Mr. MacLeod. I understand,
22 Ms. Blanchard, you will be going up next.

23 MS. BLANCHARD: Thank you very much. Good afternoon,
24 Panel.

25 So I have prepared a compendium, and I apologize, I
26 only emailed it around this morning, but I've brought some
27 paper copies. I've left four of them with your counsel and
28 I have three for the panel. I would ask that this be

1 marked as an exhibit.

2 MR. SIDLOFSKY: That will be K1.6.

3 **EXHIBIT NO. K1.6: CME CROSS-EXAMINATION COMPENDIUM**
4 **FOR HONI PANEL 1**

5 MS. BLANCHARD: Because I'll be flipping around a
6 little bit, I think maybe the paper will be easier to use,
7 frankly. All of the material in the compendium, though, is
8 included in the record already.

9 I'm just going to start at a high level and ask you to
10 confirm that in your last rate hearing, so in March of
11 2015, will you agree that the Board, the OEB, approved
12 increases, significant increases in sustainment capital
13 over 2015 to 2017?

14 [Witness panel confers]

15 MR. QUESNELLE: Mr. Vegh, just while the witnesses are
16 considering that, I just want -- this compendium includes,
17 Ms. Blanchard, documents that are still marked internal and
18 confidential. I just wanted to know the origin of these,
19 and if they are obviously clear for publication.

20 MS. BLANCHARD: They were all included in the IR
21 response.

22 MR. QUESNELLE: So these are on the public record?

23 MS. BLANCHARD: I believe they are.

24 MR. QUESNELLE: I'm just being cautious here.

25 MS. BLANCHARD: I don't think they are confidential.
26 They were included in IR response I.03.SEC.4, attachment 2.

27 And I think I got them all from the public -- I'm
28 quite confident that they were included in that publicly

1 filed IR response.

2 MR. QUESNELLE: Okay. I'm just making sure it
3 wasn't --

4 MR. VEGH: Thank you, Mr. Chair, for considering that.
5 All the confidential information has been redacted, so this
6 is all in the public record.

7 MR. QUESNELLE: Thank you.

8 MS. BLANCHARD: Thank you. Well, if it would be
9 helpful, I can direct the witnesses to a reference. But I
10 think the question is fairly straightforward, which was
11 that will you agree that in the last rate hearing for Hydro
12 One DX, the Board approved substantial increases in
13 sustainment capital for the 2015 to 2017 period?

14 [Witness panel confers]

15 MR. D'ANDREA: Sorry, we are taking some time because
16 neither of the parties here were involved. So I am looking
17 at a reference here, and maybe this will be helpful. It is
18 Exhibit A, tab 2, page 26.

19 MS. BLANCHARD: I actually thought the question was
20 going to be fairly straightforward, but if you'd like to
21 pull up a summary...

22 MR. D'ANDREA: I want to make sure we have the right
23 context because we're looking at -- let's say in the 2004
24 plan, 647.5 million, and that goes to the 2015 plan, 648.

25 MS. BLANCHARD: I'm going to take you to a different
26 reference, if that's all right with you, and I'm going to
27 take you to the IR responses.

28 And I apologize, I thought it was a straightforward

1 question, or I would have put in another page. But I'm in
2 the IR responses and it's in issue 1 to 6.

3 It is the balance of the SEC IR response, SEC.4. So
4 the reference is Exhibit I, issue 3, SEC.4, attachment 2,
5 and it's page 142 of that PDF.

6 MS. McKinnon: I need to know [microphone not
7 activated]

8 MS. BLANCHARD: It's SEC.4, attachment 2, and it's at
9 page -- I have other pages from this, so page 5 of that
10 report to the Board.

11 MS. McKinnon: Thank you.

12 MS. BLANCHARD: So as a starting point, the third
13 paragraph down, in March of 2015, Hydro One received OEB
14 approval for a three-year 2015 to 2017 custom cost-of-
15 service application which included increased sustainment
16 capital investment.

17 So as a starting point, will you agree with me that
18 there was an increase approved for that three years for
19 sustainment capital?

20 MR. D'ANDREA: Yes.

21 MS. BLANCHARD: Okay. So I'm going to take you now to
22 page 13 of my compendium and I've got -- on the screen, you
23 will see a little bit that's highlighted. I don't think it
24 would have carried through on to the paper copy, but I see
25 that this is a report to the Board, correct? We've looked
26 at this document already once today in the hearing.

27 MR. D'ANDREA: Yes, that's to the Board, yes.

28 MS. BLANCHARD: And the purpose of this document is to

1 inform Hydro One's Board as to the proposed direction for
2 the upcoming rate application. Is that fair?

3 MR. D'ANDREA: That's fair.

4 MS. BLANCHARD: And in particular, the mix of
5 investments that are being proposed for that application
6 and as you described it earlier, the balance between those
7 investments and the increase in rates, correct?

8 MR. D'ANDREA: Correct.

9 MS. BLANCHARD: So when this report was brought to the
10 Board -- and I think the date we've got there is November
11 11th, 2016 -- the Board was advised in that third paragraph
12 that the 2018 bill impact already has non actionable rate
13 increases of 5.1 percent included, correct?

14 MR. D'ANDREA: Correct.

15 MS. BLANCHARD: And those are over and above the
16 increases that were approved for the 2015 to the 2017
17 period?

18 MR. D'ANDREA: Just a moment, please. Sorry, could
19 you repeat your question?

20 MS. BLANCHARD: The question was: When the Board was
21 informed that the first year 2018 bill impact has non-
22 actionable rate increases of 5.1 percent included, that
23 would be over and above the increases in the -- the
24 increases already approved for the 2015 to 2017 rate
25 period.

26 MR. D'ANDREA: Yes, that's true. And these are
27 described as non-actionable, and I want to get into that
28 word non actionable a little bit more.

1 So first of all, I'd like to ask you whether that
2 means that the Board was advised that a 5.1 percent
3 increase was a form of baseline and they weren't to look
4 below that as a rate increase.

5 MR. D'ANDREA: That would be fair.

6 MS. BLANCHARD: And so is it accurate that the Board
7 never considered a scenario where the rate increases would
8 be less than that baseline?

9 [Witness panel confers]

10 MR. D'ANDREA: Yeah, I'm looking at your own exhibit.
11 Just three pages down from there there is a figure where it
12 talks about -- there on the bottom half of that, so it
13 talks about the rate impacts of the Plan B modified, so at
14 the same it would be modified that we talked about, and
15 there's the things that we consider non-actionable, are the
16 items to the left of the dotted line.

17 MS. BLANCHARD: And so the question was: Did the
18 Board consider or was -- did the Board consider a scenario
19 where the rate increase would be less than 5.1 percent?

20 MR. D'ANDREA: Well, no, because that's a Plan B
21 modified, so that would have been our base. We did Plan C,
22 and the rate increase would have been lower, but it wasn't
23 really a plan, because we couldn't satisfy our operating
24 system requirements with a Plan C, so we put it in front of
25 the Board, but what we debated between the Board was Plan A
26 to Plan B, and then ultimately it landed on Plan B
27 modified.

28 MS. BLANCHARD: Was Plan C less than 1.5 percent, or

1 did it just strip out the items in the controllable
2 category?

3 [Witness panel confers]

4 MR. D'ANDREA: Yes, so if you look at the difference
5 between Plan A and Plan B there the real difference is the
6 controllable piece, and that's where we made the reduction.

7 MS. BLANCHARD: Right, and so my question was: Did
8 the Board consider any scenario where the increase would be
9 less than 5.1 percent? And I think your answer is no. But
10 subject to --

11 MR. D'ANDREA: No. No.

12 MS. BLANCHARD: Okay, so I want to just get in a
13 little bit to this 5.1 percent, which was established as
14 the baseline, and you've got it broken out here in this
15 table, and I think in the preceding page of my exhibit, at
16 page 15, which is an extract from the same memorandum, you
17 provide some -- so page 15 at the top. I guess it would be
18 page 16 of the -- yeah, there we go -- down at the bottom
19 there is a bulleted list, and I understand this narrative
20 to be informing what's later represented graphically in the
21 table; is that accurate?

22 MR. D'ANDREA: That's correct.

23 MS. BLANCHARD: And so you indicate a number of
24 components to this 5.1 percent baseline, and I'm not going
25 to dwell on all of them, but I do want to speak to the
26 third item on the list, which is described as a "legacy
27 rate base", and in that item the memo to the Board
28 indicates that:

1 "Hydro One has approximately \$105 million worth
2 of additional work completed in 2015 above the
3 prior revenue allowance."

4 Do you see that?

5 MR. D'ANDREA: I see that.

6 MS. BLANCHARD: Of that 105 million, was any of that
7 sustainment capital work?

8 MR. D'ANDREA: I would need to verify. I don't know
9 the answer immediately.

10 MS. BLANCHARD: Is there somewhere in the evidence a
11 breakdown of this \$105 million of legacy rate base?

12 MR. D'ANDREA: Again, I don't have the answer to that.
13 I would have to check.

14 MS. BLANCHARD: Could you take an undertaking to --

15 MR. D'ANDREA: Yes.

16 MS. BLANCHARD: -- provide a breakdown of the
17 \$105 million?

18 MR. D'ANDREA: Yes.

19 MR. SIDLOFSKY: That will be Undertaking J1.3.

20 **UNDERTAKING NO. J1.3: TO PROVIDE A BREAKDOWN OF THE**
21 **\$105 MILLION OF LEGACY RATE BASE.**

22 MS. BLANCHARD: And so I see if you read on in the
23 same line that's described as adding up to 0.5 percent; do
24 you see that?

25 MR. D'ANDREA: Yes.

26 MS. BLANCHARD: And if I turn the page over in the
27 exhibit, and I'm just trying to correlate now this
28 narrative to your table where you're looking at these items

1 here, I take it that that lines up with the purple box,
2 where it reads "legacy rate base".

3 MR. D'ANDREA: That's correct.

4 MS. BLANCHARD: So beside that item there is another
5 item that is titled "other revenue impacts" at 0.7 percent;
6 do you see that?

7 MR. D'ANDREA: I see that.

8 MS. BLANCHARD: Can I assume that that 0.7 percent
9 then adds up to something that is more than \$105 million?

10 MR. D'ANDREA: I'd have to examine what that other
11 revenue impacts is. I don't know if that's capital per se.

12 MS. BLANCHARD: Okay, what is that category generally?
13 Because I don't see that .7 percent reflected anywhere in
14 the bulleted list, although possibly I'm missing it. I
15 just -- I've got a bulleted list with four bullet points
16 and I don't see .7 percent on it, so I'm just interested in
17 what makes up that 0.7 percent of other revenue impacts?

18 MR. D'ANDREA: I'm sorry, I can't answer that question
19 right now. I'm happy to take an undertaking on that.

20 MS. BLANCHARD: Could I have an undertaking number for
21 that?

22 MR. SIDLOFSKY: J1.4.

23 **UNDERTAKING NO. J1.4: TO PROVIDE WHAT MAKES UP THE**
24 **0.7 PERCENT OF OTHER REVENUE IMPACTS.**

25 MS. BLANCHARD: And did we get an undertaking number,
26 sorry, for the previous one? We did. Okay. Thank you.

27 Okay. So we have that 1.2 percent, which is part of
28 this baseline that the Board was advised. That's a must-

1 have in terms of expenditures.

2 So I think I'm going to turn now to the business
3 planning exercise, and again, I'm going to try to stay up
4 at 10,000 feet. I appreciate that there will be other
5 panels where we will be drilling down, but I'm going to go
6 up at the 10,000-foot level, talk to you a little bit about
7 the business plan, and I hope you'll agree with me that the
8 business plan is part of what this panel is here to talk to
9 us about.

10 MR. D'ANDREA: Fair.

11 MS. BLANCHARD: So when the application was filed last
12 June, the business plan that was filed with it was the
13 business plan that was completed at the end of 2016;
14 correct?

15 MR. D'ANDREA: Yes.

16 MS. BLANCHARD: And when the evidence was updated in
17 Exhibit Q this winter, another investment planning cycle
18 had occurred, correct?

19 MR. D'ANDREA: Yes.

20 MS. BLANCHARD: And Exhibit Q is intended to provide a
21 picture as to what has changed in terms of your planning
22 and going into the application; is that correct?

23 MR. D'ANDREA: Correct.

24 MS. BLANCHARD: Okay, so I would like to spend a
25 little bit of time just understanding what may have changed
26 over that last year, and that's why, in part, I've given
27 you the paper versions, because I want to flip back and
28 forth a little bit and understand that evolution, so I'm

1 going to start on page 2 of my compendium, which is an
2 extract from the December 2016 business plan.

3 MR. LOPEZ: Just so we can keep up, there are two of
4 us here that don't have a paper copy.

5 MS. BLANCHARD: Oh, I handed four paper copies to your
6 counsel this morning so that you would have all have one.
7 They are in a red folder. I apologize.

8 MR. LOPEZ: I've got one now.

9 MS. BLANCHARD: Now, I'd appreciate it if you would --
10 you have got page 2 there, but if you could also keep page
11 7 handy. Okay? Okay. So this is a portion of your
12 business plan called are called "Circumstances and
13 challenges", and I understand it's intended to provide a
14 snapshot of the fleet and the business. Would that be a
15 fair characterization?

16 MR. D'ANDREA: That would be fair.

17 MS. BLANCHARD: And it is a standard component of your
18 business plan; is that fair?

19 MR. D'ANDREA: It is.

20 MS. BLANCHARD: Okay. So in 2016, I'm looking first
21 at just geography, in 2016 Hydro One is maintaining 100,000
22 approximately kilometres of right of way; do you see that?

23 MR. D'ANDREA: Yes.

24 MS. BLANCHARD: And if you flip over to page 7, the
25 following year, you are now maintaining 104,000 kilometres
26 of right of way. And so could you provide some insight
27 into why you've got the extra 4,000 kilometres worth of
28 right of way?

1 MR. D'ANDREA: I wouldn't be able to answer that
2 question. I would direct that to panel 5.

3 MS. BLANCHARD: Okay. Are you able, just generally,
4 to comment on whether there was any change that you're
5 aware of to the makeup of your system's big picture in that
6 one year period?

7 MR. D'ANDREA: Sorry. Again, I wouldn't be able to
8 answer that question.

9 MS. BLANCHARD: Okay. So this document, though, is
10 the 10,000-foot view of Hydro One as a business and is
11 intended to provide, at a very high-level, a picture of the
12 fleet; is that fair?

13 MR. D'ANDREA: That's fair.

14 MS. BLANCHARD: So if there is a material change in
15 this section, it means there is a material change in
16 something that's happening with Hydro One? Is that a fair
17 assumption?

18 MR. D'ANDREA: That's fair.

19 MS. BLANCHARD: So I'm going to observe that in the
20 geography section, the document also indicates in 2016 that
21 one-third of the lines are off-road, but in 2017, it's one
22 quarter?

23 I'm happy to put those questions to panel 5. But
24 again, you don't have any reason to believe that there was
25 a major change in the makeup of your right of way
26 configuration in that year?

27 MR. D'ANDREA: Not that I'm aware of.

28 MR. ANDRE: If I could add? I do know that the GIS

1 system is becoming more prevalent and use of the
2 information and output from our GIS system is becoming more
3 prevalent.

4 So I think Mr. D'Andrea has pointed you to the correct
5 panel. But it could be simply a matter of accuracy in
6 terms of the information that is now available through our
7 updated systems, our improved data issue.

8 MS. BLANCHARD: So it could be a data issue between
9 2016 and 2017?

10 MR. ANDRE: I wouldn't necessarily call it a data
11 issue, just better data, more accurate data.

12 MS. BLANCHARD: Okay. Well, I'm just going to take
13 you down the page, because as I understand one of the
14 themes of this application and one that has appeared in
15 past applications is about aging and deteriorating
16 infrastructure is about aging and deteriorating
17 infrastructure, and that's right there in your business
18 plan. Would you agree that that's one of the themes?

19 MR. D'ANDREA: It is.

20 MS. BLANCHARD: So that would be a critical factor
21 that would inform your business planning exercise; is that
22 fair?

23 MR. D'ANDREA: Yes, it would drive our investment
24 plan.

25 MS. BLANCHARD: And again, I don't want to get into
26 the specifics. But in 2016, you have 240,000 wood poles
27 beyond their expected life, and if you turn over the page
28 to 2017, that number has gone up to 280,000 poles and I

1 think -- are you going to point me to panel 5, again?

2 MR. D'ANDREA: I am.

3 MS. BLANCHARD: I'm going to do this one last time and
4 I don't expect the answer. But I think it is important
5 that we have this discussion at a high-level. I am seeing
6 144 station transformers that are beyond their expected
7 life in 2016. So I've got 144 station transformers that
8 are more than 50 years old in 2016 and if you turn the
9 page, in 2017, I now have 279 station transformers that are
10 beyond their expected life.

11 So the number of station transformers that are beyond
12 their expected life are doubling in that one planning
13 cycle. Now, I understand that this is not the panel that
14 we are going to talk about project over project, but that
15 order of magnitude suggests to me that something material
16 is changing or there's a significant issue with data.

17 So are you able to speak to those -- that kind of
18 delta in terms of station transformers?

19 MR. D'ANDREA: I would ask panel 5 that question.

20 MS. BLANCHARD: So you are not aware of any material
21 change?

22 MR. D'ANDREA: I'm not aware of it, no.

23 MS. BLANCHARD: So I'll leave the demographics and the
24 fleet piece for now, and I'll ask you now to go to the
25 investment summaries.

26 So the first one, the 2016 investment summary, is at
27 page 5 of my compendium and that's 2016, and that's the
28 investment summary that was available when the application

1 was first filed by Hydro One, correct?

2 MR. D'ANDREA: That's correct.

3 MS. BLANCHARD: And so I guess as a starting point, I
4 understand that we are to refer to Exhibit Q to understand
5 the delta between this capital expenditure plan that was
6 presented in the June 2017 application and the one that is
7 before the Board today --

8 MR. D'ANDREA: That's correct.

9 MS. BLANCHARD: -- referring you to schedule Q.

10 MR. D'ANDREA: Correct.

11 MS. BLANCHARD: Will you agree with me that schedule Q
12 does not provide any detailed information about any change
13 to the proposed capital expenditures in the sustaining
14 category?

15 I can give you the reference, or you can take my word
16 for it. Your choice.

17 MR. D'ANDREA: No, give me the reference, please.

18 MS. BLANCHARD: Okay. It's Exhibit Q, tab 1, schedule
19 1, page 8.

20 And I think this is the list of the substantial
21 changes in terms of your capital expenditures that's
22 provided in schedule Q.

23 Primarily, will you agree with me that this list looks
24 at what, in effect, amounts to reduced investment in
25 general -- in the general plant category overall?

26 MR. D'ANDREA: Yes, that's fair.

27 MS. BLANCHARD: So you can take it, subject to check,
28 but I'll put to you that schedule -- or that Exhibit Q does

1 not speak in any material way about the delta between the
2 sustainment capital plan from the 2016 business plan and
3 the sustainment capital plan from 2017 business plan.

4 MR. D'ANDREA: Right, so Exhibit Q is updating the
5 2016 plan, not doing a 2016 to 2017 plan.

6 MS. BLANCHARD: Right, but Exhibit Q doesn't tell me
7 about what's going on with sustainment capital. Would you
8 agree with that, or subject to check?

9 MR. D'ANDREA: Subject to check.

10 MS. BLANCHARD: All right, so I'd like to look at that
11 a little bit with you today. So if you just have page 5 of
12 my compendium open, and we'll just take you across the
13 sustainment capital line now.

14 At page 9 of my compendium, I have the capital plan
15 for the updated capital plan in 2017. So that's why I've
16 given it to you on paper, but if we kind of go back and
17 forth there, we can see the difference between what was
18 proposed in 2016 for sustainment capital and what was
19 proposed in 2017 for sustainment capital.

20 Now, I think it might get a little bit boring if I go
21 line over line, but I'm going to give you just my basic
22 math, which is subtracting one from the other, and if
23 you'll take it subject to check, I think we can do it that
24 way.

25 MR. D'ANDREA: Yes.

26 MS. BLANCHARD: Okay. You're good? So by my math,
27 2018, you've got \$18 million more for sustainment capital,
28 2019, 23 million, 2020, 17 million, 2021, 17 million, 2022,

1 14 million, and it adds up to \$89 million of additional
2 sustainment capital. Will you take that subject to check?

3 MR. D'ANDREA: Subject to check.

4 MS. BLANCHARD: So that -- this capital number, this
5 is informing your capital factor, correct? To some extent?
6 It is part of the input to your capital.

7 MR. D'ANDREA: Part of the input.

8 MS. BLANCHARD: Yeah. And it will be part of what
9 produces the increase in the rate.

10 MR. D'ANDREA: As part of the capital factor, yes.

11 MS. BLANCHARD: And, now, on page 5, just scanning
12 down there, a little bit down the page, system renewal.
13 Now, is -- I know you've been working on changing the
14 nomenclature. I'm assuming that "sustainment capital" is
15 largely within the system renewal heading; is that
16 accurate?

17 MR. D'ANDREA: Based on the chart on page 9, 249 of
18 that would be system renewal.

19 MS. BLANCHARD: So in 2016, system renewal investment
20 costs were projected to increase by 3.7 percent annually?
21 Can I assume that that percentage is going up in the
22 amended plan?

23 MR. D'ANDREA: I am just looking at the math that
24 would say yes.

25 MS. BLANCHARD: And, let's see -- I think I may
26 actually leave that area for now.

27 So I'm actually going to shift gears and ask you some
28 different questions now. Just keeping track of my time, I

1 think I may have gone over my estimate, Panel, and I'll try
2 to make the next couple of questions as short as possible.

3 MR. QUESNELLE: Thank you.

4 MS. BLANCHARD: Okay. So I'd like to ask you just a
5 few questions about the scorecard. As I understand, this
6 is the panel for scorecard questions.

7 MR. D'ANDREA: Yes.

8 MS. BLANCHARD: Okay. So I've got a copy of the
9 scorecard in my compendium, page 17. This is a scorecard
10 that was updated with targets and actuals in response to an
11 SEC interrogatory.

12 So my first question relates to the cost -- total cost
13 per customer metric, and the numbers are quite small, so it
14 might be good to zoom in here.

15 So just scanning across the line, and I -- it was by
16 zooming in we've lost the year, but if you read across,
17 that 983 million is the cost per customer for 2015;
18 correct?

19 [Witness panel confers]

20 MR. LOPEZ: That's just dollars per customer.

21 MS. BLANCHARD: Sorry, yes, 900 -- I'm used to adding
22 the millions, sorry, so the \$983 per customer, that's the
23 2015 number, correct?

24 MR. LOPEZ: Yes.

25 MS. BLANCHARD: And it's gone down from 2014. The
26 cost per customer in 2015 is lower than the cost per
27 customer was in 2014?

28 MR. LOPEZ: Yes.

1 MS. BLANCHARD: What is the explanation -- well, let
2 me ask it this way: In 2015 there is an additional
3 \$105 million that is not accounted for in this cost per
4 customer number; is that correct? Because we looked at
5 that 105 million before that wasn't added into rate base.
6 This number, does it include the legacy costs or not?

7 MR. LOPEZ: I don't know, I'd have to check.

8 MS. BLANCHARD: Could you check?

9 MR. LOPEZ: Yes.

10 MS. BLANCHARD: Would you take that as an undertaking,
11 please.

12 MR. VEGH: Sorry, could you please clarify the
13 undertaking. I'm not sure where some of these numbers are
14 coming from.

15 MS. BLANCHARD: Well, I took the -- we understood when
16 we looked at the report to the Board that there was
17 \$105 million of legacy rate base that had not been
18 recovered through rates, and so my question is: Is the \$983
19 per customer lower because it doesn't include that number
20 or is there another reason why it's lower?

21 MR. LOPEZ: I think perhaps just a quick answer as to
22 why it's lower, I think that's what the undertaking would
23 be, I don't think it's included. 105 million wouldn't get
24 included until the next rate case, so...

25 MS. BLANCHARD: Okay. Why it's lower would be fine.

26 MR. LOPEZ: So what caused the change from 2014 to
27 2015?

28 MS. BLANCHARD: Yes, yeah, that would be fine. Yes.

1 Okay. And --

2 MR. SIDLOFSKY: That will be -- sorry. That will be
3 Undertaking J1.5.

4 MS. BLANCHARD: Thank you.

5 **UNDERTAKING NO. J1.5: TO ADVISE WHAT CAUSED THE**
6 **CHANGE IN COST PER CUSTOMER FROM 2014 TO 2015.**

7 MS. BLANCHARD: Now, a few questions about customer
8 satisfaction, and I know we're not talking about the
9 customer consultation in this particular panel, but you've
10 got a metric that is called customer satisfaction survey
11 results.

12 And would you agree with me that your current metric
13 is showing customer satisfaction as 85 percent in 2014?

14 MR. LOPEZ: Yes.

15 MS. BLANCHARD: And then 85 percent again in 2015?

16 MR. LOPEZ: Yes.

17 MS. BLANCHARD: And then 84 percent in 2016?

18 MR. LOPEZ: Yes.

19 MS. BLANCHARD: Okay. And then I want to take you to
20 page 22 of my compendium. Are you familiar with this
21 report? I've included the title page, actually, the page
22 previous, if you want to just look at that. It is a
23 customer satisfaction study.

24 So if I go to page 22, overall satisfaction is
25 falling. Would you agree?

26 MR. LOPEZ: Per this graph, yes.

27 MS. BLANCHARD: And in any event, it is substantially
28 lower than 84 percent?

1 MR. LOPEZ: It is lower.

2 MS. BLANCHARD: So would you agree with me that the
3 metric that you are showing in your scorecard is not
4 capturing -- is it not up-to-date or it's not capturing
5 your most recent survey results?

6 MR. LOPEZ: They may be showing two different things.
7 I think the best person to answer this would be the
8 customer panel, and they could explain the link between the
9 distributor's scorecard and this particular item that you
10 are pointing to, because they may be showing two subsets of
11 customers or -- I don't know the answer, so I'm directing
12 it to the customer panel.

13 MS. BLANCHARD: So are you able to explain how the
14 customer satisfaction metric was generated for the purposes
15 of the scorecard, or is that also for the other panel?
16 Just what makes up that...

17 MR. LOPEZ: So it is generated externally. But you
18 are showing me a report here that may be a subset of that;
19 it may be something slightly different. So I think the
20 best person to explain why this is different to the
21 scorecard would be the customer panel.

22 MS. BLANCHARD: Okay. So jumping around a little bit,
23 but I am still on scorecards and page 20 of my compendium.
24 I understand that this is the updated productivity and
25 outcome measures scorecard that formed part of the more
26 recent business plan; is that correct?

27 MR. LOPEZ: Yes.

28 MS. BLANCHARD: So I'm looking at your measure called

1 "number of vegetation-caused interruptions."

2 MR. LOPEZ: Yes.

3 MS. BLANCHARD: And will you agree with me that your
4 targets are actually worse than your most recent historical
5 result?

6 MR. LOPEZ: Sorry, could you point me to...

7 MS. BLANCHARD: I'm in the row -- number of
8 vegetation-caused interruptions. So I think your last
9 historical result is from 2016 and it's 67,674, and your
10 target for 2017...

11 MR. LOPEZ: No, sorry, I think it's misaligned. So
12 the number of vegetation-caused interruptions is the --it's
13 starting with 6113 and then moving across.

14 MS. BLANCHARD: Okay. So this is actually the number
15 of line equipment-caused interruptions?

16 MR. LOPEZ: Yes.

17 MS. BLANCHARD: So line equipment, you are targeting
18 something worse than your last historical result?

19 MR. LOPEZ: So for the 18 to '23, the historical
20 result?

21 MS. BLANCHARD: I've got 2016, 2,774 and for 2017, you
22 are targeting 8200?

23 MR. LOPEZ: Yes.

24 MS. BLANCHARD: So you are targeting something worse
25 than your last historical result?

26 MR. LOPEZ: Yes. And again, the panel on planning
27 will be able to give more insight to that. But it could be
28 something along the lines of weather impacting 2016 a lot

1 less than 2017, an abnormal year, because if we look back,
2 it is fairly consistent.

3 So again, I'd leave it to that panel to explain
4 exactly why 2016 is a different -- an outlier.

5 MS. BLANCHARD: Will you agree with me that your
6 target is worse than every year that is reported on this
7 chart, other than 2014?

8 MR. LOPEZ: Yes, marginally lower -- marginally higher
9 than 2015.

10 MS. BLANCHARD: I think those are my questions for
11 this panel.

12 MR. QUESNELLE: Thank you. Miss Grice?

13 MS. GRICE: Good afternoon, panel. I'm Shelly Grice
14 representing AMPCO and I too have a compendium that I left
15 over with Board Staff.

16 MR. SIDLOFSKY: That will be Exhibit K1.7.

17 **EXHIBIT NO. K1.7: AMPCO CROSS-EXAMINATION COMPENDIUM**
18 **FOR HONI PANEL 1**

19 MS. GRICE: Do the panel members have a copy?

20 [Off-record discussion]

21 MS. GRICE: Okay, I've sent it now.

22 So if we can please start with page 27 of the
23 compendium, what this shows is the corporate governance
24 structure for Hydro One Limited, and it shows the board of
25 directors and then the committees that report to the board
26 of directors.

27 And I wanted to ask if there are any other committees,
28 or any different corporate governance structure that

1 applies to Hydro One Networks Inc.?

2 [Witness panel confers]

3 MR. LOPEZ: No, there's no separate governance
4 structure that applies to Hydro One Networks Inc.

5 MS. GRICE: Thank you. So it's the same committees;
6 there are no additional committees?

7 MR. LOPEZ: Yes, it's the same committees.

8 MS. GRICE: Okay, great, thank you. If we could
9 please turn to page 19, and I have some questions as well
10 on the corporate scorecard.

11 So under the response here, 18 SEC 29, the first
12 bullet says that:

13 "The OEB revised the reporting methodology for
14 SAIDI and SAIFI to exclude loss of supply and
15 force majeure. SAIDI and SAIFI results prior to
16 2015 were not estimated (sic)."

17 So if we can then please turn to page 22.

18 MR. QUESNELLE: It actually says were not restated, I
19 believe.

20 MS. GRICE: I'm sorry about that.

21 MR. QUESNELLE: Just for the transcript.

22 MS. GRICE: Thank you. And this is similar to the
23 scorecard that Ms. Blanchard took you to, and there are a
24 number of metrics under system reliability and the first
25 three are related to number of interruptions and there are
26 three categories: line equipment, vegetation and
27 substations. Could you tell me if those three metrics, if
28 they also include loss of supply and force majeure?

1 MR. LOPEZ: I can't answer that question.

2 MS. GRICE: Could you undertake to get that answer?

3 MR. VEGH: I believe another panel -- I would expect
4 panel 5 would be able to answer these questions in greater
5 detail.

6 MS. GRICE: Okay. And then similarly with respect to
7 the SAIDI and SAIFI rural and urban categories that are
8 under system reliability, again I want to ask if loss of
9 supply and force majeure are excluded from those numbers as
10 they are excluded from SAIDI and SAIFI as per the OEB
11 direction? Can you tell me if those numbers are also loss
12 of supply and force majeure?

13 MR. LOPEZ: I think -- similar to the previous
14 suggestion. I think panel 5 is probably best able to answer
15 the definition of each of those.

16 MS. GRICE: Thank you. I'll re-direct my question
17 there.

18 My next question is not in the compendium, and I
19 apologize, but I have provided it. If we can please turn
20 to 24.SEC.46.

21 MR. QUESNELLE: Mr. Vegh, this probably goes without
22 saying, but as we are moving questions along to future
23 panels, if they're made aware of it so that they have the
24 information and we're not taking undertakings next week.

25 MR. VEGH: Thank you, sir, I'm keeping a note of
26 these.

27 MR. QUESNELLE: Yes. Thank you.

28 MS. GRICE: And that's -- I'm looking at attachment 1,

1 and under "scope of work", which is section 3, under part B
2 -- and this -- what we're looking at is the terms of
3 reference for AESI which was hired by Hydro One to do a
4 third-party review of the DSP, and it just covers off what
5 their scope of work is, and under that bullet, under part B
6 it says that:

7 "AESI to is to participate fully, in cooperation
8 with Hydro One, in the filing, discovery,
9 hearing, and argument phases of the OEB review of
10 the distribution unit cost benchmarking studies."

11 So does that mean that this is referring to the
12 benchmarking studies that were done by Navigant in first
13 quartile for the full replacement and station refurbishment
14 and then the vegetation management study that was
15 undertaken by CN Utility? Is that what that bullet is
16 referring to?

17 [Witness panel confers]

18 MR. D'ANDREA: Sorry, we're unable to answer your
19 question. We can take an undertaking if you'd like.

20 MS. GRICE: Okay, if we could get an undertaking,
21 please, because that panel is coming up where I believe the
22 contents of that report will be discussed, and so I wanted
23 to ask questions regarding any assessment that was made by
24 AESI regarding those unit cost benchmarking studies.

25 MR. VEGH: Mr. D'Andrea said he would provide an
26 undertaking.

27 MS. GRICE: Thank you.

28 MR. SIDLOFSKY: J1.6.

1 UNDERTAKING NO. J1.6: TO EXPLAIN 24.SEC.46,
2 ATTACHMENT 1, SECTION 3, "SCOPE OF WORK", PART B,
3 TERMS OF REFERENCE FOR AESI

4 MS. GRICE: Okay. My next questions are regarding the
5 Auditor General report. And I have some follow-up
6 questions on a couple of outstanding recommendations that
7 impact Hydro One's capital investment plan in this
8 application and Hydro One's request for a custom capital
9 factor. We know that the Auditor General filed the report
10 in December of 2015. The report had 17 recommendations,
11 and Hydro One has responded and completed most of the
12 recommendations, but there are two recommendations that I
13 wanted to discuss with you that were outstanding when this
14 application was filed on March 31st, 2017, and I'm
15 specifically referring to recommendations number 5 and 11.

16 So if we go to page 7 of the compendium, and this
17 information was filed in Hydro One's application, and what
18 this is is it's an internal audit by Hydro One and it is a
19 follow-up, as of 2016, to the recommendations that were in
20 the Auditor General's report, so I just wanted to ask some
21 questions on this recommendation. Is that something this
22 panel can answer?

23 MR. D'ANDREA: As I think as that relates to the
24 distribution assets, this is better suited for panel 5.

25 MS. GRICE: If I want to ask about how this
26 information was incorporated into the creation of the
27 capital -- or the custom capital factor and the investment
28 levels for modified Plan B. Could I ask them?

1 MR. D'ANDREA: In terms of Plan B, yes.

2 MS. GRICE: Okay. Okay. So this recommendation
3 number 5 as stated here is information systems on asset
4 condition including asset analytics, and my understanding
5 is that the Auditor General created this recommendation
6 because they wanted to ensure that Hydro One is replacing
7 assets that are at the highest risk of failure as
8 determined through accurate asset condition ratings, and
9 that comes right out of the Auditor General report.

10 So if we look at what the recommendations are, and
11 I'll just state them very quickly: Number one, Hydro One
12 should enhance its asset analytic system. Number two,
13 review and adjust current weighting assigned to risk
14 factors in asset analytics. The third one is to make
15 changes to its asset analytic system and procedures so that
16 updates to its data are complete, timely, and accurate.
17 Number four, conduct a comprehensive review of the data
18 quality and asset analytics to update any incomplete or
19 erroneous information on its assets and to ensure the
20 information can support its asset replacement decision-
21 making process, and number five, investigate why known
22 deficiencies in the reliability of the asset analytic
23 system such as those found two years earlier by internal
24 Hydro One audits have not been corrected by management in a
25 timely manner. So that's recommendation number five.

26 And will you agree with me that those items were
27 outstanding at the time that you filed your application in
28 this proceeding?

1 MR. D'ANDREA: At the time, yes, they were
2 outstanding.

3 MS. GRICE: Thank you, and then if we just turn the
4 page to follow up with recommendation number 11, and these
5 two go hand in hand, recommendation number 11 is regarding
6 quality of data for distribution assets, and the
7 recommendation put forward by the auditor general was to
8 ensure that management decisions on replacing assets are
9 made using reliable and complete information, and that
10 Hydro One should take the actions needed to ensure its
11 asset analytics system provides timely, reliable, accurate,
12 and complete information on the conditions of assets.

13 And if you look down at the second bullet under there,
14 halfway through the update as of -- the update in 2016 on
15 following up on these recommendations states that:

16 "To date the focus had been on transmission data
17 to support the more immediate needs of the
18 transmission rate filing. This effort had not
19 yet addressed the data quality of distribution
20 data at the time of our follow-up."

21 And the date on this report is March 31st, 2017, which
22 coincides with the filing of this application, so again,
23 you will agree with me that any of the recommendations or
24 the action items under recommendation 11 had not been
25 undertaken at the time this application was filed.

26 [Witness panel confers]

27 MR. D'ANDREA: In terms of this application, I would
28 agree specifically.

1 MS. GRICE: Thank you.

2 So here's my question now, and I'm trying to keep it
3 at a high level related to Plan B modified and your custom
4 capital factor.

5 So just to summarize, given the specific and unique
6 circumstances of Hydro One, that both the Auditor General
7 and Hydro One have identified significant data quality
8 issues, and Hydro One had identified them two years
9 earlier, that at the time of preparing the five-year
10 capital plan had not been addressed because transmission
11 asset quality data was addressed first.

12 Can you explain how this Board Panel can have
13 confidence that Hydro One's proposed sustainment capital
14 levels are optimal and that a custom capital factor is
15 appropriate?

16 MR. D'ANDREA: The basis for our capital factor and
17 what we're asking for in terms of investment levels is
18 really driven by our distribution system plan, and I would
19 direct you to panel 5, who are willing to defend that plan,
20 and you can speak to them about the progress they've made
21 in terms of data analytics.

22 So we while we found the application that was an
23 incorporated part of it, we hadn't made progress on there,
24 and they are willing to stand by and defend the investment
25 plan that supports the distribution system plan.

26 MS. GRICE: But the investment plan that's part of
27 Plan B modified, and the five-year forecast, that does not
28 reflect any progress made on data analytics; is that -- is

1 that --

2 MR. D'ANDREA: At the time we filed, I agree, but
3 there's been progress made, and we have a better sense of
4 our investment needs, and the investment planners can
5 defend the distribution system as filed.

6 MS. GRICE: So did Hydro One, as part of the business
7 planning process and the business plan that was submitted
8 to the board of directors in December 2017, did that
9 involve a rerunning of the optimization of the investment
10 plans to reflect that progress that was made in the data?

11 [Witness panel confers]

12 MR. LOPEZ: The -- like Frank said, panel 5 will take
13 you through it in a more detailed process and what they
14 went through. It's through the transmission process, went
15 through it earlier, and got the benefit of a lot of the
16 changes that were made.

17 But they did have a look at the 2016 data and run it
18 through at a high level to see if it would be substantially
19 different, and the answer was no. So I think that's what
20 panel 5 will be able to take you through, in terms of
21 looking at that.

22 So did it get the benefit of that process from the
23 bottom up? It didn't, but it got it from the top down
24 after the plan was formed.

25 MS. GRICE: If we could just please next turn to page
26 17 of the compendium.

27 This is now -- this was filed in response to an
28 interrogatory and it was the follow-up to the Auditor

1 General's recommendations, and the report is dated November
2 of 2017, and it shows again the five recommendations that
3 are under recommendation number 5. And aside from one,
4 four of them are not complete. And then if you look under
5 the observations, the third bullet down says:

6 "The data remediation effort has not adequately
7 addressed distribution data completeness."

8 And the next bullet says:

9 "There is a lack of sustainable approach over the
10 long-term to manage data completeness and data
11 quality."

12 And then if we can please turn the page over to page
13 18, it is the same report and it is just providing Hydro
14 One's response to recommendation number 11, and under the
15 observations it says:

16 "Based on the evidence gathered on the
17 distribution data remediation efforts, this
18 project is completely running on an ad hoc basis
19 with the lack of an implementation schedule, nor
20 the establishment of the data completeness and
21 accuracy targets."

22 So that report is dated November 27th. My assessment
23 is that most of the action items under these
24 recommendations are not complete, so I'm just trying to
25 square that up with the investment plan that's part of this
26 proceeding and the accuracy of that, in terms of achieving
27 the most optimal investment capital -- capital investment
28 plan, particularly under the sustaining category.

1 MR. LOPEZ: I think my previous answer will cover the
2 same ground here, in that we believe that from a top-down
3 approach, it is accurate and we're comfortable with it.

4 But the panel that's best able to demonstrate that to
5 the OEB and to everybody here is panel 5.

6 MS. GRICE: Okay. If I wanted to -- so panel 5, I
7 wanted to get an update on the status of recommendations 5
8 and 11, I should direct those to panel 5?

9 MR. LOPEZ: Yes.

10 MS. GRICE: Are you able to tell me who is overseeing
11 implementation of the recommendations?

12 MR. LOPEZ: I can't answer that question. I don't
13 know the response.

14 MS. GRICE: Okay. I wanted to understand, in terms of
15 future internal audits that are being undertaken with
16 respect to this data quality issue, a list of audits over
17 the next three years was provided as part of 40.AMPCO.50
18 and that's been identified as an interrogatory for this
19 panel.

20 Is that something you would be able to tell me is to
21 flag which internal audits that are identified in the
22 tables are related to this specific issue?

23 MR. LOPEZ: Can we scroll down? Is that in here?

24 MR. LOPEZ: I think, because it's such a long list,
25 we'll be here for a while to read all of that. So I think
26 we'll need to take an undertaking and have our current
27 internal audit plan reconciled and tell you which ones
28 apply to this.

1 MS. GRICE: To those two specific recommendations, 5
2 and 11?

3 MR. LOPEZ: Yes, recommendations 5 and 11.

4 MR. SIDLOFSKY: That will be undertaking J5.7.

5 **UNDERTAKING NO. J1.7: TO RECONCILE THE INTERNAL AUDIT**
6 **PLAN AND ADVISE WHICH APPLY TO RECOMMENDATIONS 5 AND**
7 **11**

8 MR. QUESNELLE: Mr. Vegh, to the extent possible, if
9 the undertaking could be responded to in advance of panel 5
10 being up, that would be very helpful.

11 MR. VEGH: Yes, sir.

12 MS. GRICE: Thank you. And then in terms of the
13 investment summary documents that are filed in this
14 application, would you be able to tell me which ones have
15 their origin in the auditor general recommendations,
16 specifically numbers 5 and 11?

17 [Witness panel confers]

18 MR. LOPEZ: I think panel 5 can answer that question.

19 MS. GRICE: Okay, thank you. I'm moving on to a
20 different area now, and I just have a couple of questions
21 left.

22 I have a question regarding -- there is just a
23 reference made to reliability risk, and some of the memos
24 that went to your board of directors. And I'm sorry this
25 is not in the compendium, but I'll give you the reference
26 and I've provided it to Hydro One. It is 3.SEC.4,
27 attachment number 2.

28 Down at the bottom of page 2, in the second last

1 paragraph after the comments -- I guess, sorry, I should
2 give you more of a reference. It says:

3 "For example, we may choose to reduce investments
4 in 2018."

5 Sorry, that's...

6 Oh, you know what, page 1 is the second page of a
7 memo. So sorry, it's page q, the bottom of the second
8 paragraph:

9 "For example, we may choose to reduce investments
10 in 2018 to reduce rates in a year where customers
11 may be experiencing high bill impacts of up to 72
12 percent total bill due to continued increases in
13 the price of electricity. But these decisions may
14 have a negative effect on reliability risk and
15 system condition."

16 And if you scroll down, please, to page 8.

17 MR. VEGH: I'm sorry, Ms. Grice, I'm just having a bit
18 of a challenge following where you were. Could you please
19 go back to the previous reference, the one you just read
20 from, please?

21 MS. GRICE: So it is 3 SEC.4, attachment number 2, and
22 it is a memo to the Board and there's -- page 1 is actually
23 the second page of attachment number 2.

24 MR. VEGH: I see that, because I thought I heard the
25 number of customers experiencing bill impacts up to 72
26 percent.

27 MS. GRICE: Sorry, 7.2 percent.

28 MR. VEGH: Okay, thank you.

1 MS. GRICE: And then if we could go to page 8, please.
2 Under figure 3, plan C, the first bullet, it says that
3 there is a high risk of missing business objectives due to
4 a large increase in reliability risk.

5 So I just wanted to provide those references, but then
6 go back to the evidence in this proceeding, and this is at
7 page 30 and 31 of the compendium, and the two lines that
8 are at the bottom of the table there for SAIDI, the
9 estimated input to SAIDI and then the forecasted SAIDI
10 hours.

11 Is that -- I just want to confirm. Is that a
12 reliability calculation or a reliability risk calculation?

13 MR. D'ANDREA: It is a reliability risk measure and it
14 ties to the numbers on page 8 where you were previously
15 showing us the tables.

16 MS. GRICE: So is this a similar concept to what Hydro
17 One put forward in the transmission rate application?

18 MR. D'ANDREA: I was not involved with the
19 transmission rate application. I can't answer that.

20 MS. GRICE: Is there anything in the evidence that
21 speaks to reliability risk and what Hydro One means by that
22 term?

23 MR. D'ANDREA: I would refer you to panel 5 to talk
24 about the reliability risk.

25 MS. GRICE: Okay. A final question: For these two
26 tables I've tried to recreate them myself from the evidence
27 and the interrogatories and the undertakings, and I'm
28 having a little difficulty.

1 Is there an underlying spreadsheet that supports table
2 4 and table 5? Is that something that Hydro One could
3 provide before panel 5?

4 [Witness panel confers]

5 MR. VEGH: Mr. Chair, while the panel is seeing if
6 they can provide that, I would just point out this is the
7 type of question that is typically asked for in an
8 interrogatory or an undertaking at the technical
9 conference, and this material has been around for a while.
10 I'll allow the panel to answer the question, but I'm just
11 making that observation.

12 MR. QUESNELLE: Noted. Ms. Grice did say she tried to
13 recreate themselves and was unable to, so I don't know when
14 that effort took place, but understood.

15 MR. D'ANDREA: So we can't answer whether there is a
16 spreadsheet or not behind this or what supports that, but
17 we're willing to take an undertaking on it.

18 MS. GRICE: That would be great, thank you.

19 MR. SIDLOFSKY: That will be J1.8.

20 **UNDERTAKING NO. J1.8: TO PROVIDE A VERSION OF THE**
21 **DATA TO SUPPORT TABLES 4 AND 5, ESTIMATED INPUT TO**
22 **SAIDI AND FORECASTED SAIDI HOURS.**

23 MS. GRICE: If we could -- if there is any way at all
24 to get that, please, before panel 5, that would be very
25 helpful.

26 Thank you, I'm finished with my questions. Thank you.

27 MR. QUESNELLE: Thank you, Ms. Grice.

28 We'll take our afternoon break. Just looking at the

1 estimated times going forward, it is unlikely we will get
2 everyone in today, but we'll see what we can do, and then
3 maybe at the end of the day, Mr. Vegh, we'll have a
4 conversation about what we anticipate for tomorrow and how
5 we'd like to manage that.

6 --- Recess taken at 3:23 p.m.

7 --- On resuming at 3:45 p.m.

8 MR. QUESNELLE: Mr. Vegh, I understand there was some
9 discussion about tomorrow and the availability of Mr.
10 McDonald, and we've come to a proposal.

11 MR. VEGH: Thank you, sir. I've discussed with
12 counsel for the intervenors and so the person who's not
13 available tomorrow is Keith McDonald and, an internal Hydro
14 One witness who will be addressing compensation.

15 And the intervenor counsel have tried to determine can
16 they carve up the cross-examinations in such a way as to be
17 able to efficiently ask questions for the remainder of the
18 panel tomorrow afternoon, and I'm advised that that
19 probably just wouldn't work and that it would be -- we
20 would end up with a lot of duplication and going back
21 around.

22 So it seems that the most efficient solution to this
23 would be to just stand down until we can have the full
24 panel on Thursday.

25 MR. QUESNELLE: Okay, thanks. And I understand that
26 moving panel 3 up isn't an option.

27 MR. VEGH: No, we've investigated that, and that's
28 not...

1 MR. QUESNELLE: Well, we'll try to make up for it in
2 the coming days and get back on schedule if we can,
3 recognizing that we already have some slippage today. But
4 obviously we will be able to work what in tomorrow; that's
5 not going to cause a problem. We will finish with panel 1
6 tomorrow, I'm quite sure.

7 Thank you. I am just looking at my list here. Mr.
8 Segel-Brown?

9 MR. SEGEL-BROWN: Hello, my name is Ben Segel-Brown.
10 I'm appearing for the Vulnerable Energy Consumers
11 Coalition. We distributed a updated compendium at noon
12 today, and I believe printed copies have been distributed
13 to the panel.

14 So my first set of questions relates to the...

15 MR. SIDLOFSKY: Sorry to interrupt. If we could just
16 mark that as an exhibit before you go ahead, that would be
17 great, K1.8.

18 **EXHIBIT NO. K1.8: VECC CROSS-EXAMINATION COMPENDIUM**
19 **FOR HONI PANEL 1**

20 MR. QUESNELLE: I take it we have the updated one up
21 here. It will become apparent probably.

22 MR. SEGEL-BROWN: There is only one page, so...

23 MR. QUESNELLE: Let's move on then. We'll note it if
24 we get to it and we don't have the right page.

25 MR. SIDLOFSKY: The updated version is tab 14, so if
26 you could check at the end of that.

27 MR. QUESNELLE: We do have tab 14. Thank you.

28 MR. SEGEL-BROWN: So my first set of questions relates

1 to the allocation of costs associated with the three
2 acquired local distribution companies.

3 So if you turn to tab 1, it's stated in this
4 information response that Hydro One distribution has not
5 allocated any increase in corporate common costs to the
6 acquired customers.

7 MR. ANDRE: Yes, with -- this interrogatory response
8 is in reference to 2016. So in all years up to 2021, there
9 are no allocation of common costs to the acquireds per the
10 agreement on deferred rebasing. Until such time as the
11 acquired utilities are integrated into Hydro One's rate
12 structure, the costs are kept completely separate.

13 MR. SEGEL-BROWN: Okay. So it's my understanding that
14 if there were an increase in common costs attributable to
15 the acquired utilities, that increase in cost would have to
16 be allocated to them, correct?

17 MR. ANDRE: If there was an increase in common costs,
18 yes. So common costs -- our position is that Hydro One's
19 common costs do not change as a result of the integration
20 of -- or the acquisition of the utilities. So Hydro One's
21 common costs would not change as a result of acquiring the
22 utilities.

23 MR. SEGEL-BROWN: So it's your view that you don't,
24 but if they did increase, they would have to be allocated
25 to those classes of customer?

26 MR. ANDRE: I'm not sure I agree with they would have
27 to be allocated. They certainly wouldn't be -- we wouldn't
28 certainly wouldn't be permitted to collect that from Hydro

1 One's existing customers.

2 MR. SEGEL-BROWN: Okay. So if you could turn to
3 tab 6, tab 6 sets out a number of cost drivers that are
4 used for the purposes of cost allocation.

5 So looking at those cost drivers, a financial cost
6 driver is the total capital?

7 [Witness panel confers]

8 MR. ANDRE: Yes, I do see that, Mr. Segel-Brown. Of
9 course you understand that here the reference is with
10 respect to allocating common corporate costs between our
11 transmission and distribution lines of business and I'm --
12 the -- I -- certainly when I refer to cost allocation, I'm
13 referring to the cost allocation for the purpose of setting
14 rates so...

15 MR. SEGEL-BROWN: Right. I'm not referring to
16 allocation between class -- well, between like business
17 residential customers, but the allocation between business
18 units.

19 MR. ANDRE: Right. No, I understand that. So we are
20 on the same page.

21 MR. SEGEL-BROWN: Okay.

22 MR. ANDRE: This is with respect to common corporate
23 cost allocation.

24 MR. SEGEL-BROWN: So for the purposes of common cost
25 allocation between business units, you consider total
26 capital to be one of your financial cost drivers?

27 MR. ANDRE: I don't know if somebody on the panel can
28 answer that. I'm not in the business planning part of

1 Hydro One, so I wouldn't -- I'm not familiar with the
2 allocation of common corporate cost between our D and T
3 businesses. I know that the very next panel, Mr....

4 MR. LOPEZ: Joel Jodoin is the expert on corporate
5 cost allocation. This is some of the exhibits that you've
6 got before this on Black and Veatch, he is the expert.

7 MR. SEGEL-BROWN: Okay. Well, the point that I'm
8 trying to get at here is that several of the factors that
9 are identified as cost drivers for the purposes of cost
10 allocation will increase as a result of the acquisition of
11 the three local distribution companies, correct?

12 And one example of that would be total capital.
13 Another example would be invoices to vendors.

14 MR. ANDRE: You're correct if some these common
15 corporate costs were being allocated to the acquireds. But
16 as I said, you know, during this deferred rebasing period,
17 the cost to serve the acquireds and Hydro One's legacy
18 customers are kept completely separate. The acquired costs
19 are simply not part of the revenue requirement that we're
20 asking for in this application up to 2021.

21 MR. SEGEL-BROWN: Am I to take from that -- for
22 example, under the treasury function, you have insurance
23 costs. So for the purposes of Hydro One's insurance, all
24 of the capital assets associated with the acquired
25 utilities, those insurance costs are being kept separate?

26 MR. ANDRE: I think you need to that I can being take
27 that up with Mr. Jodoin in the next panel.

28 MR. SEGEL-BROWN: So you are not able to speak to

1 these cost drivers that would arise from the purposes of
2 the acquisition of the local distribution companies?

3 MR. ANDRE: The cost drivers with respect to the
4 allocation of common corporate costs? No, I'm not able to
5 speak to that.

6 MR. LOPEZ: I think Joel is the appropriate witness;
7 otherwise, we'll go through this twice.

8 At a high level, the costs are, for the most part,
9 kept separate. So they are not included in the bucket of
10 costs, they are kept separate and the -- so if we acquired
11 an LDC, they run separately for the period of time and then
12 they're fully integrated after that time period.

13 And that's when we would bring them into the rate
14 case, and we allocate costs and shared costs. But for the
15 time being, they're run fairly separate.

16 So they come with admin costs, they come with
17 management costs that were already part of the LDC when we
18 acquired them and they remained separate. They are not
19 included in here, so they don't attract a share of
20 corporate common costs at the Hydro One level.

21 MR. SEGEL-BROWN: So when we look at cost allocation
22 between business units, there are costs which are
23 specifically associated with the business unit, like you
24 have a set of costs that are clearly associated with
25 distribution, and then you are trying to allocate the
26 common corporate costs over top of that, which aren't
27 clearly associated.

28 So are you saying that none of the activities, the

1 governance and the support activities which would be
2 captured in corporate common costs are being undertaken by
3 Hydro One for these local distribution companies?

4 MR. LOPEZ: So right at the top of the structure,
5 there would be an amount that is not allocated to
6 distribution or transmission shareholders under these rate
7 cases.

8 Any costs associated, or that portion of costs
9 associated with an LDC, for example, that is not included
10 in the rate base for these purposes would be excluded.

11 So their share, there would be a part at the top of
12 Hydro One that is retained by the shareholder and that part
13 that belongs to -- that we believe belongs to the LDCs
14 would also be retained by the shareholder because it cannot
15 be recovered from the LDC customer and it cannot be
16 recovered from the transmission or distribution customer.
17 But Joel will be able to take you through, like, the actual
18 -- the way that mechanically occurs, and he can demonstrate
19 exactly how that's done in practice.

20 MR. SEGEL-BROWN: I will have to defer those
21 questions, then.

22 The next set of questions I should also defer to Joel.
23 They relate to whether or not the cost drivers associated
24 with the acquired utilities were included for the purposes
25 of allocating corporate common costs between distribution
26 and transmission?

27 MR. LOPEZ: Yes.

28 MR. SEGEL-BROWN: Okay, so if you could turn to tab 7.

1 So under tab 7 you have identified incremental OM&A
2 activities associated with the three acquired utilities.
3 We can see the portion of those costs related to customer
4 care.

5 Can you tell me whether the activities captured in the
6 incremental customer care costs are the same as those
7 described in tab 8, which is described in the same for
8 Hydro One?

9 MR. ANDRE: I don't -- I don't know if all of the
10 items in table 1 that's shown in your tab 8 apply, but
11 certainly call centre operations to the extent that the
12 acquired utilities drive incremental costs from our call
13 centre provider energy, so to the extent that there are
14 additional costs they would be classified as incremental
15 and would be contributing to that customer care line.

16 Similarly, meter reading; to the extent that there is
17 additional meter reading, incremental meter reading, that
18 would be included, and third-party support. I know
19 postage, so I know increased postage costs are another
20 incremental cost as associated with serving the acquired.
21 So any incremental costs that are under the customer care
22 budget would be included in the line on -- in VECC 55, the
23 table shown in part C.

24 MR. SEGEL-BROWN: So going down two more lines from
25 where you got to, how is the low-income energy assistance
26 program funding being accounted for in the OM&A figures in
27 Exhibit 7 for the acquired utilities?

28 MR. ANDRE: So actually, just to be clear, I don't

1 know if I was, I was talking about the table in your tab 8.

2 MR. SEGEL-BROWN: Um-hmm.

3 MR. ANDRE: Like, all of those costs are associated
4 with Hydro One.

5 MR. SEGEL-BROWN: Yeah.

6 MR. ANDRE: I was referring to the categories. I know
7 that there are incremental costs of that same nature that
8 are associated with serving the acquireds, but they
9 wouldn't be in table 1. Table 1 are just the costs
10 associated with serving Hydro One. I'm not sure if I made
11 that clear. Sorry, your follow-up question was...

12 MR. SEGEL-BROWN: When we look at the customer care
13 costs in the previous exhibit under C, we were wondering
14 whether the low-income energy assistance program costs are
15 being included there.

16 MR. ANDRE: Umm... I'm afraid I can't -- I can't say
17 definitively if that's the line where the low-income cost
18 would be or whether it's under "other", because I notice
19 the next line is common corporate cost and "other", so I'm
20 not exactly sure where -- which line they would be
21 associated with.

22 MR. SEGEL-BROWN: Could you undertake to clarify how
23 the low-income energy assistance program is being accounted
24 for in those figures?

25 MR. ANDRE: Yes, I could do that.

26 MR. SIDLOFSKY: That will be J1.9.

27 **UNDERTAKING NO. J1.9: TO CLARIFY HOW THE LOW-INCOME**
28 **ENERGY ASSISTANCE PROGRAM IS BEING ACCOUNTED FOR IN**

1 **TABLE 1 OF TAB 7 OF THE VECC COMPENDIUM.**

2 MR. SEGEL-BROWN: So for the purposes of this table
3 that we're looking at here under C, it does include
4 corporate common costs associated with the OM&A. So the
5 cost drivers that we talked about earlier, those were the
6 cost drivers used to allocate those corporate common costs?

7 MR. ANDRE: No, I don't believe so. These would be
8 the incremental costs associated with serving these
9 utilities, so it would not be an allocation of Hydro One's
10 common corporate cost; it would be to the extent that there
11 are any incremental costs associated with the acquisitions,
12 that's what would be identified here. So it's not an
13 allocation of Hydro One's broader corporate common costs.

14 MR. SEGEL-BROWN: So they are only paying the
15 incremental common corporate costs. They are not being
16 allocated a share of common corporate costs in accordance
17 with Hydro One's usual methodology between business units?

18 MR. ANDRE: Yes, that would my understanding of what's
19 shown on this table.

20 MR. SEGEL-BROWN: And for the purposes of allocating
21 between business units were the cost drivers associated
22 with the acquired utilities included?

23 MR. ANDRE: Again, so if it's allocation between
24 business units it would be Joel on the next panel.

25 MR. SEGEL-BROWN: Okay, all right. So turning to
26 tab 9. So tab 9 compiles together various places where
27 you've discussed the advantages associated with your
28 revenue cap proposal of the more common price cap proposal,

1 but in listening to you this morning, it sounded like the
2 main difference from our perspective is, between an annual
3 IR and between your custom IR, where your custom IR is
4 allowing an exceptional level of capital expenditures over
5 the next five years, so that's the main reason for pursuing
6 the -- what is the primary reason for pursuing the custom
7 IR over the regular annual IR?

8 MR. D'ANDREA: So we'll go back to compliance with the
9 rate handbook. First of all, the custom IR is a
10 methodology that is allowed. There are no eligibility
11 requirements, so it is allowed, and it is assessed in terms
12 of our capital requirements, so again, it is the large and
13 varying capital requirements. Because we've gone down the
14 path of the custom IR, we therefore are ineligible for sort
15 of an ECM type model which, as we discussed this morning,
16 is limited to discrete capital projects, and so the custom
17 IR allows us to meet our operational requirements and it
18 helps us admit and integrate the acquired utilities.

19 MR. SEGEL-BROWN: So when you were talking about this
20 this morning, turning to tab 14, you made references to the
21 precedent of Toronto Hydro. And when we look at the
22 capital expenditures which Toronto Hydro was facing, it was
23 a substantial increase over the recent history and a
24 substantially higher level of planned capital expenditures.

25 Looking at the same figures for Hydro One, that is not
26 the case. The level of planned expenditures over the next
27 five years is basically an inflationary increase from the
28 last five years of capital expenditures; is that right?

1 That's at the end -- there's two pages later. This isn't
2 quite the most recent figures, but...

3 MR. D'ANDREA: So again, I go back to the criteria
4 where we're looking at the revenue cap model. The amounts
5 are not large, and they're not consistent -- they are what
6 I refer to as lumpy as we did this morning.

7 And so if we were follow an ACM type model we wouldn't
8 get enough capital investment needed to fund the
9 distribution plan and the objectives we are trying to
10 achieve there.

11 MR. SEGEL-BROWN: One of the differences which seems
12 to arise is that all of your capital expenditures for the
13 custom IR period will be recoverable rather than you having
14 to demonstrate that they are exceptional capital
15 expenditures as you would for an incremental capital
16 module; right?

17 MR. D'ANDREA: They would be recoverable to the extent
18 that we meet our in-service targets and the productivity.

19 So if we meet our -- so for sure on our in-service as
20 demonstrated through our capital and service variance
21 accounts, our proposal is to have verifiable productivity
22 savings. But essentially, if we're meeting our in-service
23 targets, then we would recover our capital.

24 MR. SEGEL-BROWN: So the main difference between the
25 custom IR and the standard 7.5 percent would be that you
26 are being allowed to -- you are being allowed to recover a
27 high level of capital expenditures over the five-year
28 period, and you're not having to demonstrate that those

1 expenditures are exceptional.

2 MR. D'ANDREA: Sorry, what is the 7.5 percent?

3 MR. SEGEL-BROWN: Oh, that's the -- the total cash
4 working capital allowance, which is 75 percent of total
5 operating expenses plus the cost of power, which is the
6 amount which would be allocated to capital expenditures
7 under a regular IR.

8 MR. D'ANDREA: I think your question is whether or not
9 we demonstrate that these are exceptional. I think that
10 the investment plan, through our distribution system plan,
11 will demonstrate that these are large non-recurring
12 expenditures. And again, that is why we went with the
13 revenue cap index.

14 MR. SEGEL-BROWN: So your position is that this level
15 of capital expenditures is large and nonrecurring, and
16 that's why you are entitled to the custom IR?

17 MR. D'ANDREA: Well, we're entitled to the custom IR
18 as a matter of choice. We have to demonstrate that we are
19 -- the outcomes of a revenue cap model. And as I expressed
20 at the end of today just before the lunch break, we've met
21 all those requirements under the revenue cap model.

22 MR. ANDRE: And if I could add -- I mean, the Board's
23 handbook on distribution rate applications, in the glossary
24 of terms where it defines what a custom incentive
25 rate-setting mechanism is, it says:

26 "While the price cap IR option, along with
27 options such as ICM and ACM, should be adequate
28 for most utilities, some utilities may find that

1 their circumstances, such high growth or
2 significant capital investments, may not be
3 accommodated adequately through the standard
4 approach. Utilities with the significant
5 operating and capital expenditure needs may apply
6 for a multi-year, minimum five years custom IR
7 plan."

8 So it was contemplated by the Board's regulatory --
9 renewed regulatory framework that some utilities may have
10 significant capital expenditures that aren't adequately
11 addressed by the price cap plus ACM. And that is our
12 situation, which is why we've applied for a custom IR.

13 MR. SEGEL-BROWN: Okay. Turning to the price cap
14 versus revenue cap, from your responses this morning, it
15 seemed like the main reason for preferring the revenue cap
16 is that simply it will make it easier to integrate the
17 acquired utilities and the resulting increase in capital
18 and number of customers.

19 MR. ANDRE: Yes. I think I -- as I said this morning,
20 it goes beyond making it easier to integrate the acquired
21 utilities. I don't know that a price cap approach could
22 accommodate the integration of the acquired utilities in
23 2021.

24 In '19 and '20, there really isn't a material
25 difference between price cap and revenue cap, as long as
26 the growth in your -- in your customer base and sales
27 volume is accommodated, they're virtually identical. But
28 the integration of the acquireds in 2021 makes a price cap

1 unusable, as far as I'm concerned.

2 MR. SEGEL-BROWN: Okay. So at tab 10 -- at tab 10, we
3 included a version of your table 2. That's page 31.
4 Sorry.

5 MR. ANDRE: We're there.

6 MR. SEGEL-BROWN: Sorry, it's actually page 33 where
7 we've tried to break out the year-to-year difference in
8 rate base and the capital expenditures.

9 You've provided updated figures this morning. We
10 were wondering if you could undertake to provide a version
11 of table 2 using your updated figures, which shows the
12 year-to-year difference in rate base and the capital
13 expenditures.

14 [Witness panel confers]

15 MR. ANDRE: I'm advised that what we presented this
16 morning changed the categorization of some of the capital
17 between since the renewal in the other categories, but it
18 didn't actually change the total capital investment.

19 So I don't think that there is -- I think this table
20 would continue to be accurate.

21 MR. SEGEL-BROWN: So our table is based on the
22 December 2017 update, but I have a note from my analyst
23 that in the May 2018 updates, there were more recent
24 updates to the rate base numbers which we haven't taken
25 into account.

26 MR. ANDRE: Sorry, just give us a sec.

27 [Witness panel confers]

28 So our understanding of what was filed in December is

1 the latest in terms of the forecast spending through the
2 period 2018 to 2022. I know that he in May, we did a
3 filing that updated the actual spend as of 2017 year-end.
4 But I'm -- again, I'm not aware that it changed the
5 forecast for '18 to '22, subject to check.

6 MR. SEGEL-BROWN: Subject to you verifying our
7 numbers, we have a contrast here between the year-to-year
8 difference in rate base, which for 2019 is 360 million, and
9 the capital spend -- claimed capital expenditures, which
10 are 736 million.

11 So you agree that there is a difference there? we'll
12 get into it.

13 MR. ANDRE: Yes, you're -- I mean, given that the
14 first line is rate base, if we change the actuals I would
15 expect it would have changed rate base. So I think the
16 best is to -- is for us to check and verify that if the '18
17 through '22 information has changed and, as you've
18 requested, if it has changed then to update this modified
19 table 2. So I think it would be best to undertake to do
20 that.

21 MR. QUESNELLE: You'll take an undertaking taking on
22 that?

23 MR. SIDLOFSKY: And that will be J1.10.

24 **UNDERTAKING NO. J1.10: TO VERIFY THE '18 TO '22**
25 **INFORMATION AND MODIFY TABLE 2 IF REQUIRED**

26 MR. SEGEL-BROWN: So at a theoretical level, the
27 reason why there is a difference between the year-to-year
28 difference in the rate base and the capital expenditure

1 would be attributable to depreciation and the capital
2 spending that is on work in progress?

3 MR. ANDRE: Yes.

4 MR. SEGEL-BROWN: Okay. So, Mr. D'Andrea, in I9.CME.6
5 -- I'm sorry, I don't know the -- Exhibit I, tab 9, CME 6,
6 you indicate that the rate base includes working capital;
7 is that correct?

8 MR. ANDRE: Yes.

9 MR. SEGEL-BROWN: So one of the main differences
10 between your proposal and a standard price cap adopted by
11 the Board is that under your plan, you'd make an upward
12 adjustment for all additions to the rate base and not just
13 exceptional capital spending?

14 MR. D'ANDREA: Well, you keep calling it exceptional.
15 It is whatever we've proposed in terms of our investment
16 plan, that's what we would put in.

17 MR. SEGEL-BROWN: Right. But you wouldn't have to
18 separately justify that to an incremental capital module
19 like would normally be the process.

20 MR. D'ANDREA: But following the rate handbook, we are
21 justified in terms of our five-year projection of costs,
22 and those are tested through the distribution system in
23 terms of the investments we want to make, so it is
24 consistent with the custom IR application.

25 MR. VEGH: Sorry, I hate to interrupt, but I think --
26 I am getting a bit confused by the line of questions. I
27 think my friend starts -- uses indiscriminately, I think,
28 the concept of a price cap IRM and then an exceptional

1 requirement as it relates to an ICM model or ACM model, and
2 I think that's causing a bit of confusion, at least for me.

3 The criteria of exceptional does not apply, I believe,
4 to -- to any IRM with a price cap or revenue cap, and so I
5 think that's causing some confusion by adding that
6 qualifier into some of the questions and not the other
7 questions.

8 If I'm wrong and you want to demonstrate that the
9 criteria of exceptional is relevant to a price cap IRM,
10 then perhaps you could identify that, and I think that will
11 clarify the questions for the witnesses.

12 MR. SEGEL-BROWN: I'll come back to that.

13 So the effect of the capital factor is basically to
14 take into account net additions to the rate base rather
15 than capital spending?

16 MR. D'ANDREA: Correct, with the productivity factor
17 as well.

18 MR. SEGEL-BROWN: Okay, so how is customer growth
19 factored into the revenue cap proposal?

20 MR. ANDRE: As I replied this morning, our forecast of
21 capital spend through the '18 to '22 period includes
22 forecast capital to accommodate any growth, and then as far
23 as OM&A is concerned, Hydro One is committing to the
24 rebased amount in '18 and then is committing to live with
25 the OM&A, you know, adjusted with -- for productivity less
26 inflation and stretch, we're committing to live with that
27 and not require any additional OM&A as a result of sales
28 volume growth.

1 MR. SEGEL-BROWN: Okay, so your rate growth adjustment
2 is modified by a productivity factor, but I don't see how
3 it's modified by the fact that your capital expenditures
4 may be related to customer growth and therefore may require
5 no additional funding in rates.

6 MR. ANDRE: Sorry, could you repeat your question?

7 MR. SEGEL-BROWN: So to the extent that you are making
8 capital expenditures in order to meet a growth and demand
9 from your customer base which may not require any
10 additional funding in rates, how is that taken into account
11 in the revenue-requirement model?

12 MR. ANDRE: That's not taken into -- so it's taken
13 into account in terms of determining the revenue that's to
14 be collected, and then the rates that fall out of that
15 revenue would take into account any change in load, sales
16 volume in those years, so to the extent that sales volume
17 is going up or in the case of '19 going down, that change
18 in sales volume would be factored into the calculation of
19 the rates so that the revenue requirement exactly as
20 identified by the custom IR index, revenue cap index, would
21 be collected, so the rates portion is taken into account at
22 the time that you calculate the rates, taking into account
23 the billing determinants.

24 MR. SEGEL-BROWN: So the capital expenditure to meet
25 new demand would increase your revenue requirement, but
26 that would be offset by the splitting it up of more people?

27 MR. ANDRE: Correct.

28 MR. SEGEL-BROWN: So in addition to your proposal for

1 the recovery of all your rate base additions net of a
2 productivity adjustment, you are proposing a capital in-
3 service variance account. Basically it protects ratepayers
4 from increase in revenue requirement that would relate to
5 any excess of your capital expenditures forecast; is that
6 correct?

7 MR. D'ANDREA: That's correct.

8 MR. SEGEL-BROWN: But it is a short-term protection,
9 right? I mean, if you overspend your budget in a
10 particular year, that would be recorded in the rate base
11 and presumably adjusted for at the next rebasing?

12 MR. D'ANDREA: We're not compensated for any overages.

13 MR. SEGEL-BROWN: During the custom IR, but it would
14 be included in the next -- potentially included in the next
15 rebasing?

16 [Witness panel confers]

17 MR. D'ANDREA: It would show up in our next rebasing.

18 MR. SEGEL-BROWN: Okay, turning to tab 9. So from the
19 calculations here it appears that you are using a forecast
20 of capital expenditures to adjust your revenue requirement.
21 So the adjustment would occur irrespective of any changes
22 to the actual expenditures or an updated forecast?

23 [Witness panel confers]

24 MR. D'ANDREA: Consistent with the handbook, it is
25 based on a forecast.

26 MR. SEGEL-BROWN: Okay, so looking at tab 10, page 30,
27 table 2, so we have the factors here, the growth factors of
28 2.84, 2.73, 3.69, and 2.31, so we know in -- why would we

1 not smooth those numbers in order to create a single
2 capital factor adjustment which occurs every year?

3 [Witness panel confers]

4 MR. D'ANDREA: Just give us a minute.

5 [Witness panel confers]

6 MR. ANDRE: Certainly one of -- we thought there was a
7 response that an -- an interrogatory that asked about that,
8 but certainly one of the factors would be that in 2021,
9 what you see there as a capital-related revenue requirement
10 is really the introduction of the rate base associated with
11 the acquired utilities. And that happens only in 2021, so
12 attempting to smooth the capital spend really would mean
13 that you're dealing with the integration of the acquireds
14 in '19 and '20 to some extent, whereas it can only happen
15 in '21 after the deferred rebasing -- five-year deferred
16 rebasing period happens, so the acquireds is certainly one
17 element of -- that happened in 2021, would be one element
18 in terms of not being able to smooth that.

19 MR. SEGEL-BROWN: Okay, so the problem with smoothing
20 is that it would allocate costs associated with the
21 acquired utilities in the later years, the legacy customer
22 base?

23 MR. ANDRE: Yeah, exactly. There is really no way to
24 accommodate the inclusion of the rate base until 2021 --
25 I'm sorry, the inclusion of the rate base associated with
26 the acquired utilities until 2021.

27 MR. SEGEL-BROWN: Okay. Could you turn to tab 13. So
28 this is an interrogatory from the Consumers Council of

1 Canada with respect to how you intend to report variances
2 in the capital and service variance account.

3 My analysts want to know what variances you are over-
4 putting.

5 Let's say you undertake none of the projects outlined
6 in your application as an extreme, but a whole set of
7 different projects, so if you did the same capital
8 expenditure, that is not a variance that would be tracked,
9 no?

10 MR. ANDRE: Could you just repeat your question for
11 the benefit of Mr. D'Andrea?

12 MR. SEGEL-BROWN: The question is what variances are
13 you reporting. It's variances in the level of aggregate
14 capital expenditure, and not variances in the actual
15 capital spend -- which capital expenditures are taking
16 place?

17 MR. D'ANDREA: That would be correct.

18 MS. SIGURDSON: If so, how do ratepayers get assurance
19 that the rates they are paying under this rebasing are
20 going towards the projects that you are saying you would
21 undertake on those other projects?

22 MR. D'ANDREA: Well, there are changes that happen
23 annually in terms of our capital program. So we set up a
24 forecast and we maintain a work envelope and those
25 priorities change during the year. We may have a mandated
26 project, or there may be a shift in priorities, or demand
27 work may come up.

28 But at the end of the day, we are still targeting

1 towards an in-service target and that's what holds us
2 accountable.

3 MR. ANDRE: Then I would add that at the next
4 rebasing, the details regarding the spending that occurred
5 over that five-year period would be part of the evidence
6 submitted as part of our next application. And then
7 intervenors and the Board would have an opportunity to
8 review exactly what the capital was spent on.

9 MR. SEGEL-BROWN: So the only control regarding what
10 capital expenditures take place during the five-year period
11 will be the threat of them not being included in the rate
12 base upon rebasing?

13 MR. D'ANDREA: No, the control is that we have certain
14 targets that we have to meet. So we've talked about the
15 OEB scorecard, our internal scorecard, and the team
16 scorecard, and those are all linked together. So to the
17 extent that we have certain objectives to meet, they all
18 tie in together in terms of the scorecard. So there is a
19 control mechanism there.

20 MR. SEGEL-BROWN: So the scorecards relate to
21 performance outcomes primarily, right?

22 MR. D'ANDREA: Correct.

23 MR. SEGEL-BROWN: So those would be tracking the
24 extent to which capital expenditures impact on performance
25 and not -- never mind.

26 So you're proposing a midterm adjustment to the cost
27 of capital for the rate base. Can you explain the theory
28 of this adjustment in a -- sorry. So why is there a cost-

1 of-capital adjustment midterm when this wouldn't usually
2 occur under a price cap formula?

3 MR. D'ANDREA: The reason -- excuse me -- the cost-of-
4 capital update is coincident with the integration of the
5 acquired utilities. So at that time, we would update the
6 load forecast and the cost of capital to more equitably
7 allocate the cost between legacy Hydro One customers and
8 the acquired utility customers.

9 So it is not an annual update. It is a one-time
10 update as an event. That event is the integration of the
11 acquired utilities.

12 MR. SEGEL-BROWN: But during the update, the update is
13 not limited to adding the capital associated with the
14 acquired utilities. It's also reviewing all of your
15 capital.

16 MR. D'ANDREA: No. What we're doing in 2021, we add
17 the OM&A that is associated with those acquired utilities
18 and we add the capital base, similar to if there were
19 almost a cost of service. But you're adding that cost of
20 service element of the acquisitions into the midterm
21 application. And again, that's why we went back with the
22 revenue cap model; it's easier to integrate it that way.

23 MR. SEGEL-BROWN: So -- sorry, I was hearing you
24 talking about it this morning, and I got the impression
25 that during the midterm review, it would be all of the
26 capital cost that would be reviewed and not just those
27 associated with the newly acquired utilities.

28 MR. D'ANDREA: No, we are setting the capital element

1 for our legacy customers today on a five-year forecast.
2 What we do in 2021 is we add the rate base associated with
3 those acquired utilities.

4 So if you were to go to table 2, you will see -- it is
5 not specifically highlighted there, but in one of the
6 interrogatories it is. It's that you are adding the rate
7 base, basically those acquired utilities in 2021.

8 MR. ANDRE: And proposal is perhaps -- maybe I'm
9 misunderstanding you. But the proposal is to update the
10 cost of capital, so the rate of return associated with the
11 addition of that rate base, not to change the level of
12 capital spend.

13 MR. SEGEL-BROWN: Oh?

14 MR. ANDRE: We're not changing the capital spend. We
15 are updating the cost of capital to whatever the Board's
16 proscribed rate is in that year.

17 MR. SEGEL-BROWN: So is the only factor that is
18 changing the addition of the amount associated with the
19 acquired utilities? Or it sounds like you are also
20 updating to use the current Board rate at that time?

21 MR. ANDRE: Yes. So for 2021, Hydro One has a
22 forecast of its capital spend on -- for its, you know,
23 Hydro One legacy customer classes, and then it has -- in
24 2021 also, it adds the rate base associated with the
25 integration of the acquireds.

26 And then for both of those components, we'll be
27 calculating the cost of that rate base at the new cost of
28 capital that the Board has proscribed at that point in

1 time.

2 MR. SEGEL-BROWN: So an incidental effect of your
3 proposal is that it's protecting Hydro One against a
4 potential change to the cost of capital that -- between
5 what is forecasted for 2021 and what actually occurs?

6 MR. ANDRE: I think you've correctly characterized
7 that as incidental. Yes, that would happen. The reason
8 for doing so is to ensure that the cost -- because those
9 acquired utilities haven't been rebased in some cases since
10 2011.

11 So we want to ensure at that time in 2021 when we take
12 Hydro One's total costs and allocate a portion of those
13 costs to serving the acquired utilities, we want to make
14 sure that the inputs that go into that cost allocation
15 model that's going to divvy up the costs and assign a
16 certain portion to the acquireds, we want to make sure that
17 that is the best reflection we can of what it costs to
18 serve those acquired utilities.

19 That's why cost of capital and the load forecast is
20 what we propose to be updated, because the load forecast is
21 another key contributor in the cost allocation model in
22 terms of how much a particular rate class attracts of the
23 total costs.

24 So the two components are both tied to the integration
25 of the acquired utilities.

26 MR. D'ANDREA: And if I could add on that, you
27 mentioned that it would protect Hydro One. We're agnostic
28 on the cost of capital because we don't set the cost of

1 capital. So whichever way it goes, we will update at that
2 time in 2021. It's an exogenous factor.

3 MR. SEGEL-BROWN: So it's only effect is to ensure
4 you -- well, you'll have to bear the change either way.
5 Okay.

6 Those are all my questions. Thank you.

7 MR. QUESNELLE: Thank you. Thank you very much, Mr.
8 Segel-Brown. Ms. DeMarco?

9 **CROSS-EXAMINATION BY MS. DEMARCO:**

10 MS. DeMARCO: Thank you, Mr. Chair, and thank you,
11 panel. I have just a few questions of clarification,
12 largely in and around how customer consultation informed
13 HONI's choice of review revenue cap and the appropriateness
14 of the capital factor. And specifically, I believe this
15 follows on a few questions that Mr. D'Andrea responded to
16 in relation to questions posed by Mr. Ladanyi.

17 So if I could take you -- we do have a compendium that
18 we passed along just recently -- to tab number 1, and very
19 specifically at page 003.

20 Unfortunately, we have the numbering configuration
21 where you have zeros in front of all the page numbers.

22 MR. SIDLOFSKY: Sorry, Ms. DeMarco, if I could just
23 stop you for a moment. That will be Exhibit K1.9.

24 **EXHIBIT NO. K1.9: ANWAATIN CROSS-EXAMINATION**
25 **COMPENDIUM FOR HONI PANEL 1**

26 MS. DeMARCO: Thank you. I should have asked to have
27 that marked. My apologies, Mr. Sidlofsky.

28 So at page 003, which is an excerpt from Exhibit A,

1 tab 3, schedule 1, at pages 2 and 3, you speak very
2 directly at the bottom of that page indicating that the
3 planning process followed by Hydro One also resulted in
4 significant reductions in investments in 2018, to mitigate
5 customer rate impacts in that year.

6 And you conclude that as a result, the entire
7 application is responsive to Hydro One's customer needs and
8 preferences.

9 Do I have that right?

10 MR. D'ANDREA: Sorry, I'm reading the same statement,
11 yes.

12 MS. DeMARCO: So quite specifically, it's your view
13 that rate mitigation through the decreased investment is in
14 fact responsive to your customer needs and preferences?

15 MR. D'ANDREA: Yes, based on our customer input, price
16 was more important than reliability for the residential
17 customers.

18 MS. DeMARCO: But fair to say that price isn't the
19 only customer need and preference that you heard about; is
20 that right?

21 MR. D'ANDREA: No, we heard about reliability as well.

22 MS. DeMARCO: Could we look at some of those specific
23 instances where you heard about reliability. And very
24 specifically, can I ask you to turn to tab 2, which is at
25 page 9 of the brief, which is a response of Anwaatin in
26 relation to IRs posed by Hydro One --

27 MR. ANDRE: Sorry, I don't believe we have -- are you
28 referring to a brief? Is this a compendium that you have?

1 MS. DeMARCO: A compendium, I'm sorry.

2 MR. ANDRE: Yeah, none of the panel members have --

3 MS. DeMARCO: It is up on the screen.

4 MR. ANDRE: Ah.

5 MS. DeMARCO: And very specifically, HONI asked about
6 community engagements in which Anwaatin participated and
7 raised issues of reliability. Have I read that correctly
8 on the page?

9 MR. D'ANDREA: Yes.

10 MS. DeMARCO: And the response, if I can just take you
11 up to page 7 of the compendium, is outlined very
12 specifically, where Anwaatin stated that:

13 "Poor system reliability and the disproportionate
14 negative impact on First Nations was a concern."

15 Do you see that?

16 MR. D'ANDREA: I do.

17 MS. DeMARCO: And then secondly at number 2 it
18 indicated that First Nations communities raised concerns
19 about the high frequency and duration of power outages. Do
20 I have that right?

21 MR. D'ANDREA: Yes.

22 MS. DeMARCO: And then thirdly, we have issues of
23 First Nations raising considerations about how distributed
24 energy resources might be used to solve some of these
25 concerns; do I have that right?

26 MR. D'ANDREA: Yes.

27 MS. DeMARCO: And can I ask you now to turn to -- so
28 fair to say based on those considerations you heard about

1 reliability specific to First Nations communities?

2 MR. D'ANDREA: We did.

3 MS. DeMARCO: And you heard about distributed energy
4 resources specific to First Nation communities?

5 MR. D'ANDREA: Yes.

6 MS. DeMARCO: Great. At tab 3 of the compendium,
7 which is Exhibit B1.1.1, section 1.3, attachment 4, that's
8 the report on your specific First Nations engagement
9 session. It starts at page 15, 015 of our compendium. The
10 introductory page outlines some of the summaries, and then
11 I'm going to ask you to move on to page 7 of that report,
12 which is at page 18 of the compendium. And we have Chief
13 Melvin Hardy, and I'm going to try this as a source of
14 comic relief, at Biinjitiwaabik Zaaging Anishinaabek First
15 Nation. And if you want to read through that, he
16 specifically describes his concerns about reliability and
17 outages, extreme outages in the First Nation community.
18 You would agree with that?

19 MR. D'ANDREA: I see the statements, yes.

20 MS. DeMARCO: And you agree that he raises reliability
21 concerns there?

22 MR. D'ANDREA: Yes.

23 MS. DeMARCO: And then if I can ask you to just move a
24 page further down where we speak -- we see Chief Jim
25 Leonard speaking of Rainy River First Nation. That one is
26 a little easier to pronounce. He describes how his
27 community is looking for solutions and attempted to
28 develop, going on to the next page, solar resources; do I

1 have that right, that reference? Yes, a solar farm in
2 relation to addressing some of those concerns; do I have
3 that right?

4 MR. D'ANDREA: I see that.

5 MS. DeMARCO: And you'd agree that that's certainly a
6 possibility to use distributed energy resources to
7 address --

8 MR. D'ANDREA: That's one possibility, yes.

9 MS. DeMARCO: Thank you. So fair to say that you
10 heard about both reliability and distributed energy
11 resource as part of the customer needs and preferences?

12 MR. D'ANDREA: Yes.

13 MS. DeMARCO: Could I ask you to turn back to the
14 first page of that document, which is the notes on the
15 First Nations engagement and specifically the note-taking
16 summary of First Nations key messages. Do you see that
17 paragraph?

18 MR. D'ANDREA: I'm reading it, yes.

19 MS. DeMARCO: Do you see any reference to reliability
20 and distributed energy resources in that paragraph?

21 MR. D'ANDREA: I don't see any reference to
22 reliability, no.

23 MS. DeMARCO: So despite the fact that these were
24 raised, it is not necessarily reflected in the key
25 messages, fair to say?

26 MR. D'ANDREA: Other than the top part of it, which,
27 it says "note-taking summary of Hydro One key messages".
28 It says:

1 "We are working with First Nations through honest
2 and respectful engagement and we are working to
3 improve service responsiveness and reliability of
4 the power system and we are committed to finding
5 solutions to address affordability."

6 MS. DeMARCO: So those are the Hydro One key messages,
7 but in terms of the First Nations key messages, we don't
8 see that two aspects reflected in the First Nation?

9 MR. D'ANDREA: Not in that paragraph, no.

10 MS. DeMARCO: Thank you.

11 So you would agree with me that those are, in fact,
12 customer needs and preferences that you would want to
13 address?

14 MR. D'ANDREA: Correct.

15 MS. DeMARCO: Let's move on to a few clarification
16 questions if I can on your scorecard, which is our
17 compendium at tab 3A and the specific targets reflected
18 there at, I believe that's page 024 of our compendium. And
19 at the bottom of that page.

20 You've got that up? I'm focused on the two lines
21 related to SAIDI, the duration of interruptions, rural, and
22 SAIFI, the frequency of outages in the rural communities,
23 along the trend line from 2011 to 2016, reflecting 2017
24 actuals and 2017 target. Let's start with first SAIDI, the
25 duration of interruptions in rural communities. We, in
26 2011, are at 8.2, 2012, 8.2, 2013, 8.1. We see an increase
27 in 2014, so that's a longer duration of outages in 2014, to
28 8.6. We go to 9.1 in 2016 and -- 2015 and 2016; do I have

1 that right?

2 MR. D'ANDREA: That's right.

3 MS. DeMARCO: And it's reflecting power being out for
4 a longer period of time in those rural jurisdictions; is
5 that fair?

6 MR. D'ANDREA: That's fair.

7 MS. DeMARCO: And fair to say that it got even worse
8 in 2017, it went up to 9.4?

9 MR. D'ANDREA: It did.

10 MS. DeMARCO: Would you take, subject to check, that
11 your target for 2017 and your target SAIDI for 2018 are
12 worse than the average that your actual SAIDI was for 2011
13 to 2016?

14 MR. D'ANDREA: It is.

15 MS. DeMARCO: And I --

16 MR. ANDRE: Sorry, if I could just add, I mean, I
17 think there needs to be an appreciation that those numbers
18 would, of course, reflect the conditions in those years,
19 particularly the frequency and type of storms, and I know
20 wind storms can be particularly troublesome in terms of
21 causing frequency of outages, and then depending on the
22 type of storm, again, snow or conditions that create
23 accessibility problems will impact the duration of outages.

24 So I think what you're seeing there is not so much,
25 you know -- it is not necessarily the underlying system
26 that is getting worse, as those numbers might suggest. It
27 could have a lot to do with the frequency and nature of the
28 storms that are experienced in those years, and you'd

1 really have to look -- I think just looking at those high-
2 level numbers is not sufficient or adequate. You really
3 have to look at the underlying data that supports those
4 numbers and the analysis that supports those numbers to
5 better understand what is it that's driving that trend that
6 you see.

7 MS. DeMARCO: So is it your view as you understand it,
8 Mr. Andre, that the frequency and nature of the storms has
9 gotten consistently worse in perfect correlation with the
10 SAIDI numbers there?

11 MR. ANDRE: The storms and weather, I know in terms of
12 how it impacts load, they act randomly, and so you can
13 absolutely have two or three years of storm conditions that
14 could make things worse, followed by two or three years of
15 better conditions. All I'm suggesting is that, to look at
16 the top-level numbers without looking at the underlying
17 data and the underlying analysis that is driving that I
18 think may paint an inappropriate or incorrect picture.

19 MS. DeMARCO: Could I ask you to undertake to provide
20 that underlying data and analysis that you are referring to
21 right now?

22 MR. ANDRE: I would expect and imagine that some of
23 that is already in our evidence.

24 MS. DeMARCO: I must have missed it. I did search for
25 the associated underlying weather-related data to try to
26 find some explanation why the SAIDI is getting
27 progressively worse over time. So I wonder if you could
28 help my simple mind find that and undertake to provide the

1 data and analysis.

2 MR. ANDRE: So I think my premise that the -- there
3 are other factors that impact reliability at a high level;
4 there are a number of factors that go towards that. I
5 don't think that is an issue that can be disputed.

6 Clearly, there are a number of factors that drive
7 those reliability performance numbers. That's the only
8 point I'm trying to make.

9 MS. DeMARCO: I'm just a little...

10 MR. ANDRE: And I don't have access to that data, so
11 I'm not aware of what data is available. But having been
12 in the asset management group in my previous career, I do
13 know from looking at that data in the past that there are a
14 number of factors that can drive reliability.

15 MS. DeMARCO: So is it fair to say that the asset
16 management group has access to that data?

17 MR. ANDRE: The asset management group would have
18 additional detail, yes.

19 MS. DeMARCO: I wonder if you could undertake to have
20 the asset management group support the submissions that you
21 are giving in response here?

22 MR. VEGH: Sorry, just to clarify, Mr. Andre wasn't
23 making submissions. He was saying that there are a number
24 of factors can address the duration. And I agree with Ms.
25 DeMarco that probably the panel that is best to
26 specifically dive into what these factors might have been
27 behind these numbers would be the asset management group,
28 and particularly the evidence in the DSP.

1 I think Mr. Andre was giving a general observation and
2 not trying to identify the reasons for these particular
3 outage measures in that period.

4 So I think this is a matter that's probably best
5 addressed through the asset management panel in terms of
6 the details behind these numbers.

7 MR. QUESNELLE: I suppose, like other items that we've
8 determined that we've got the best answered by a subsequent
9 panel, Mr. Vekh, if any production of information could be
10 provided in advance of them testifying, that a would be of
11 assistance to Ms. DeMarco, I'm sure.

12 MR. VEGH: Thank you. We'll identify that evidence in
13 advance.

14 MR. QUESNELLE: Great. Thank you.

15 MR. ELSAYED: Could I just clarify? With the asset
16 management and talking about the DSP address trends
17 associated with historical data?

18 MR. VEGH: They will address force majeure and be able
19 to provide better information, in any event, than this
20 panel on what may have been the factors in 2015, 2016, and
21 2017 with respect to interruptions longer than other
22 periods.

23 I'm not sure what kind of information that they would
24 have on that, but they would have better information than
25 this panel would have on that.

26 MR. ELSAYED: Thank you.

27 MS. LONTOC: I think they could also talk to not only
28 the past, but the trend going forward because this stops at

1 2018. For example, vegetation-related management is
2 designed to bring that SAIDI down, and that's the reason
3 why we took that on. It is more cost-effective, but it is
4 also more effective from a SAIDI perspective.

5 So a view on the past, but also what's happening going
6 forward.

7 MR. QUESNELLE: Ms. DeMarco, is there anything in
8 particular that you would like to have in advance? Or if
9 they could just note what's on the transcript here and
10 provide what information they have, would that be
11 satisfactory?

12 MS. DeMARCO: Yes, I think there are two aspects that
13 I'd love to see. The first is that based on what I'm
14 hearing, I think there is a general agreement that we have
15 no specific data as to what may have been the factors for
16 those trends in SAIDI going down from this panel. Do I
17 have that right?

18 MR. LOPEZ: I think we can't answer it whilst we're
19 here today, but the data will be available. So we'll be
20 able to get that data compiled.

21 MS. DeMARCO: So you will undertake to provide that
22 data for me?

23 MR. VEGH: I'm sorry, could you repeat again what it
24 is -- what's being undertaken is to advise where this data
25 is available in the evidence, so that you can ask questions
26 about the proper -- with the proper panel with respect to
27 that data.

28 MR. QUESNELLE: I would take it if it's not in the

1 evidence now, but if it exists, it will be produced?

2 MR. VEGH: Yes, sir, if you'd find that helpful.

3 MS. DeMARCO: That's perfect. Thank you. And I'm
4 going to ask the same questions about...

5 MR. SIDLOFSKY: Sorry, Ms. DeMarco, that will be
6 J1.11.

7 **UNDERTAKING NO. J1.11: TO PROVIDE DATA TO SUPPORT THE**
8 **SAIFI TREND AND THE SAIDI TREND**

9 MS. DeMARCO: Thank you very much. Sorry about that.
10 Panel, with apologies, I'm going to ask the same
11 questions about SAIFI in the rural context. And if I can
12 just take you through there, we've got an average SAIFI in
13 the rural context of 3.3 in 2011, 3.3 in 2012, 3.0 in 2013,
14 3.42014 -- 3.4 in 2015, 3.1 in 2016, and an actual of 3.0
15 in 2017.

16 In the same context, is it fair to say that the target
17 for 2017 is worse than the 2011 to 2016 average, subject to
18 check?

19 MR. D'ANDREA: The target is worse than the historical
20 numbers, yes.

21 MS. DeMARCO: And I wonder if we can expand the
22 undertaking that was just given to include the SAIFI
23 factors as well?

24 MR. D'ANDREA: I would have expected nothing less.

25 MS. DeMARCO: Thank you, Mr. D'Andrea. Safe to say as
26 a matter of issue, reliability was a focus of the auditor
27 general, as well. You would agree with that?

28 MR. D'ANDREA: Yes.

1 MS. DeMARCO: Thank you. I'm going to ask you a few
2 questions now regarding productivity, and I'll ask you to
3 turn to tab 4 of our compendium which starts at -- I
4 believe it's page 026 of the compendium.

5 As I read it, and you will correct me if I've got this
6 wrong, this is from A3, schedule 2, page 4, the
7 productivity is actually decreasing over the 2002 to 2015
8 period as well; do I have that right? That's Hydro One's
9 own productivity.

10 MR. FENRICK: Yes, that's correct.

11 MS. DeMARCO: And you propose a stretch factor of 0.45
12 percent, which is less than the 0.6 percent proposed by the
13 Board; is that right?

14 MR. FENRICK: Proposed by the Board? What do you mean
15 by that?

16 MS. DeMARCO: The average 0.6 percent of the category
17 of the stretch factor that the Board originally put Hydro
18 One in; is that correct?

19 MR. FENRICK: Through the fourth-generation IR at the
20 time of this writing, it was 0.6 percent, as we discussed
21 this morning. Then the 2017, an update came out and Hydro
22 One was put in the group 4, the 0.45 percent which aligned
23 with what our econometric benchmarking study, as well as
24 PEG's report produced by OEB Staff.

25 MS. DeMARCO: I'm going to come to your econometric
26 study. But let me just, at a very macro level -- humour me
27 so I that understand what's going on -- the TSP is
28 effectively a derivative measure, a change of outputs and

1 change of inputs over time; is that fair?

2 MR. FENRICK: That's fair. It is measuring a trend,
3 either through the industry or a specific company. It is
4 measuring a trend in the ratio of outputs to inputs.

5 MS. DeMARCO: And that trend is retrospective in the
6 first instance, in terms of your TSP study analysis, an
7 excerpt of which is at tab 5 of our compendium; is that
8 fair? It looks backward?

9 MR. FENRICK: Yes, it's looking at historic years,
10 right.

11 MS. DeMARCO: And then to litmus test your
12 conclusions, you looked at and conducted an econometric
13 benchmarking study of total distribution cost; is that
14 fair?

15 MR. FENRICK: I don't know about the litmus test part
16 of that. But yes, we conducted a total cost econometric
17 benchmarking study to design what the total stretch factor
18 -- and so we could recommend the stretch factor for Hydro
19 One.

20 MS. DeMARCO: So there are ways that you can do that.
21 You can look at your peers, or you can go at it from an
22 econometric basis. Is that fair?

23 MR. FENRICK: Through -- if you look at the fourth-
24 generation IR and the Board's decision there, the
25 preference was certainly for econometric total cost
26 benchmarking.

27 If you go back to third-generation incentive
28 regulation, there was both a peer group and econometric

1 benchmarking study that played into the stretch factors.

2 But by the fourth generation, the Board decision
3 focused solely on the econometric total cost benchmarking,
4 and I'm also a proponent of that approach, as I believe it
5 is a far more accurate measure of performance.

6 MS. DeMARCO: Okay. So can I ask you to turn to,
7 thank you, page 29 of our compendium, which is, I believe,
8 your assessment of the Hydro One annual TFP growth rate
9 trends. Do you have that?

10 MR. FENRICK: I do, yes.

11 MS. DeMARCO: Now, for my very simple mind, I'm just
12 trying to understand, where we have a negative
13 productivity, it means that productivity is in fact getting
14 worse?

15 MR. FENRICK: It -- from a high level it means that
16 ratio for Hydro One, the ratio of the output index to the
17 input index is going down, so the total factor productivity
18 would be declining in that given year.

19 Now, there is a whole host of other aspects that do
20 not play into that, the reliability and the safety
21 measurements, as well as a whole host of other outputs that
22 aren't encapsulated in that measure, but in a very simple
23 level, the outputs produced by Hydro One divided by the
24 input quantities of Hydro One are going down if there's a
25 negative TFP --

26 MS. DeMARCO: So outputs over inputs equals
27 productivity. Productivity is going down.

28 MR. FENRICK: In that -- in a given year, where there

1 is negative productivity, yes.

2 MS. DeMARCO: So over the period of time that you've
3 got here, 2003 to 2015, I believe it's your calculation
4 that productivity has gone down by almost a full percent;
5 is that right? 0.9 percent?

6 MR. FENRICK: Over that entire period as a negative
7 0.9 percent. If you look at the more recent period it's a
8 positive .5 percent after we've looked at the reliability
9 and safety adjustments, but over that entire period, yes,
10 there is negative -- we are finding that there is negative
11 productivity from Hydro One.

12 MS. DeMARCO: And to determine what the appropriate
13 stretch is, you then did your econometric benchmarking
14 study; is that fair?

15 MR. FENRICK: That's fair, right.

16 MS. DeMARCO: And you looked at not just backward-
17 looking trends and costs but also projected forward-looking
18 total distribution costs or estimates of total distribution
19 costs; is that right?

20 MR. FENRICK: That's correct. We looked at both the
21 historical actuals from Hydro One and then looked at the
22 company's projected spending levels and put those into
23 econometric benchmarking model to give the Board and
24 stakeholders an idea of what the projected costs and what
25 those would look like from a benchmark analysis.

26 MS. DeMARCO: So it's in that forward-looking aspect
27 of your study that I want to ask just a few general
28 contextual questions, almost in a macroeconomic context.

1 Is it fair to say that the industry is changing quite
2 dramatically at this point in time?

3 MR. FENRICK: How so? When you say "dramatically", I
4 mean, there is certainly a number of things going on as far
5 as distributed energy resources and energy storage and
6 those types of things. I don't know if the underlying cost
7 structures are necessarily changing dramatically, but there
8 certainly are changes ongoing in the industry.

9 MS. DeMARCO: You've heard the term "disruptive
10 innovation"?

11 MR. FENRICK: I have.

12 MS. DeMARCO: And you've heard it applied to the
13 current energy context?

14 MR. FENRICK: Yes.

15 MS. DeMARCO: And you would agree that there is some
16 disruptive innovation going on in the current energy
17 context?

18 MR. FENRICK: I think on some level, I mean, that
19 remains to be seen, but there is certainly a potential that
20 with new technologies, processes will be changing and
21 things like that. There is certainly that possibility in
22 the future.

23 MS. DeMARCO: And part of that might be due to the use
24 of data, for example?

25 MR. FENRICK: That's one potential, using big data to
26 find increased efficiencies and things like that. That is
27 certainly a possibility.

28 MS. DeMARCO: And the other might be in relation to

1 distributed energy resources, for example?

2 MR. FENRICK: That's likely to -- you know, if DR
3 penetration increases that would have an impact on the
4 industry, yes.

5 MS. DeMARCO: And as I understand your forward-looking
6 econometric benchmarking study, there were no specific
7 controls or deviations for big data or distributed energy
8 resources; is that fair?

9 MR. FENRICK: As far as fashioning, like, the
10 benchmark in those future years, no, there was no
11 prediction, if you will, of what the industry would look
12 like in future years. We're using the historical -- the
13 historical data to fashion those benchmarks to look at all
14 the variables and see how those are correlated with costs,
15 and that is on a historical perspective, and then we apply
16 that to the projections, but you're right, it is based on
17 the history, because that's essentially all we have right
18 now.

19 MS. DeMARCO: So history for the TFP and some forward
20 stuff for the stretch factor of the X-factor. Fair to say
21 that the X-factor doesn't include those assumptions?

22 MR. FENRICK: What assumptions are you referring to?

23 MS. DeMARCO: Assumptions around distributed energy
24 resources and big data.

25 MR. FENRICK: Right, yeah, to the extent those will
26 change in the next five years, there's no correction or
27 adjustment for those types of things.

28 MS. DeMARCO: And they're not included in the

1 estimates that you applied in the econometric study either?

2 MR. FENRICK: That would be accurate to say.

3 MS. DeMARCO: Thank you. I'm going to ask you one
4 last series of hopefully very quick questions in relation
5 to the Z factor that you proposed, and I'm at tab 6, the
6 last tab of our compendium, at page 31. And you outlined
7 there a number of events that you may, in fact, treat as a
8 Z factor. Have I got that right?

9 MR. D'ANDREA: That's right.

10 MS. DeMARCO: And what I understand to be a Z factor
11 is something that will be outside of your revenue cap; it
12 will be a pass-through of costs to customers. Do I have
13 that right as well?

14 MR. D'ANDREA: Right. It would be an application to
15 the Board.

16 MS. DeMARCO: And what you are including as possible
17 classifications of those Z factors would include extreme
18 weather events, investments that are government-mandated or
19 otherwise outside of management control? Is that fair?

20 MR. D'ANDREA: Fair.

21 MS. DeMARCO: You've got regional planning as one of
22 those investments that are government-mandated and outside
23 of Hydro One's control. Do I have that right?

24 MR. D'ANDREA: Correct.

25 MS. DeMARCO: Isn't regional planning something that
26 you as Hydro One would do in the normal course of business?

27 MR. D'ANDREA: It would be, but if it were an
28 investment, say, that the IESO thought was prudent in terms

1 of regional planning that was beyond our control, we were
2 mandated to do it, then that would be a candidate.

3 MS. DeMARCO: So if the IESO told you to do it, it's
4 eligible to be outside of the revenue cap?

5 MR. D'ANDREA: It is eligible. We would have to see
6 if it met the criterias, the criterias of causality,
7 prudence and all that kind of -- but if it's beyond our
8 control, if it's material, it meets the criteria, then it
9 is eligible as a Z factor.

10 MS. DeMARCO: So do I read this right that
11 conservation and demand management would fit in the same
12 classification? It is not business as usual? This is
13 something that's eligible as a Z factor?

14 MR. D'ANDREA: If you'll just give me a moment.

15 We had a response on one of our interrogatories, it is
16 tab 15, BOMA.63, where we talk about CDM as an example for
17 a Z factor.

18 MS. DeMARCO: So fair to say that it is in fact
19 something you are considering outside the potential for --

20 MR. D'ANDREA: I would just say it is a candidate.

21 MR. ANDRE: Just to clarify, I think it is an example
22 of a program that could be mandated by the government. CDM
23 is -- there is an LRAM variance account, and so CDM is
24 dealt with, you know, through other mechanisms. I think in
25 the context of the Z factor it was simply being used as
26 something that's being -- that was mandated by the
27 government. I don't think CDM in and of itself...

28 MR. D'ANDREA: And that's what the response is, right?

1 It says CDM is an example of it, given the LRAM
2 methodology, we would not seek recovery. However, it says:
3 "Hydro One may seek said recovery in the future
4 should a similarly impactful government-mandated
5 investment arise."

6 MS. DeMARCO: So as I read this list, I was struck
7 with the thought that anything that the OEB requires you to
8 do as part of your rate application, anything that the
9 government requires you to do as a matter of normal course
10 could potentially be subject to a Z factor application
11 outside of your proposed revenue cap. Have I read that
12 wrong?

13 MR. D'ANDREA: Outside the rate case, yes. So you are
14 in the middle of the IRM period, and a material non-
15 controllable event happens, weather-mandated or a storm as
16 the examples we've pointed out, those would be candidates
17 for a Z factor, and we would make an application and would
18 be subject to due prudence.

19 MS. DeMARCO: So just bear with me while I tease this
20 out a little bit. The OEB in this decision requires you to
21 do something. Is that a potential Z factor?

22 MR. D'ANDREA: No, the Z factor falls outside of your
23 rate case. So once you've got your rate case and your
24 decision, you are now into your IRM period. If the OEB
25 were to decide for us to do something in this application
26 and we were mandated, then of course it would be embedded
27 in whatever rates are approved by this Board.

28 If, let's say, next year an event happened where we

1 were mandated to do something, again meeting all the
2 criteria outside of our control, then that is a scenario
3 where we could apply for a Z factor or would be eligible
4 for a Z factor, assuming we met the criteria.

5 MS. DeMARCO: And that would be in addition to your
6 revenue cap? That would be outside of your revenue cap?

7 MR. D'ANDREA: If the OEB approved it, yes.

8 MS. DeMARCO: So can I just focus very specifically on
9 storms. You've got all storms there. Are we talking very
10 specifically the one-in-ten-year storm; would that
11 potentially be a Z factor?

12 MR. D'ANDREA: Potentially. So it's events that --
13 and the way Z-factor is applied is it's applied on an event
14 basis.

15 So if it was the ice storm, let's call it, one of the
16 major ice storms, then that would be a candidate because it
17 is beyond normal business circumstances and our budgets
18 include planned costs for storms. But in an ice storm
19 situation, as an example, it would be over and above; it
20 would be material. We did all the right things, but we
21 would ask for recovery through a Z factor, potentially.

22 MS. DeMARCO: So in this evidence, you haven't
23 stipulated the threshold or the materiality level. But you
24 are certainly willing to stipulate a materiality or a
25 threshold level?

26 MR. D'ANDREA: In our response to 16.CCC.18, it is
27 a million dollars, consistent with the Board's
28 requirements.

1 MS. DeMARCO: And other materiality thresholds that
2 you'd be willing to -- for example, the one-in-a-hundred-
3 years storm, as our ice storm was, or is it strictly a
4 financial threshold?

5 MR. D'ANDREA: Well, it is largely financial. I would
6 -- I am hard-pressed to believe that we would go for a
7 second Z factor for a million dollars, so it would have to
8 be very significant.

9 MS. DeMARCO: Would you consider updating the
10 threshold of the Z factors that you would in fact go for?

11 MR. D'ANDREA: Well, we're applying the Board's policy
12 for the materiality threshold, so we are trying to be
13 consistent with the handbook.

14 MS. DeMARCO: Would you be consider being more
15 conservative with the Board's policy to give stakeholders
16 ease?

17 MR. D'ANDREA: I don't think it's my place to say
18 whether I would change the rules. We are trying to follow
19 what the OEB set out.

20 MS. DeMARCO: So the bottom line is we could end up
21 back here for anything above a million dollars in terms of
22 these?

23 MR. D'ANDREA: I don't expect us to be here for
24 a million dollars.

25 MS. DeMARCO: I'm going to ask you one tough set of
26 questions around last week's outcomes. Very specifically,
27 you've got as a Z factor changes to government policy,
28 legislation, or regulation. Fair to say that we've had a

1 fairly large change in government last week?

2 MR. VEGH: Mr. Chair, I'm not sure where Ms. DeMarco
3 is going on this. The criteria is laid out in the Board's
4 handbook, it is laid out in the evidence. You know, to
5 speculate on what a government-elect may or may not have as
6 a policy, I don't think is appropriate in this application.

7 MS. DeMARCO: I'm happy to let it go. Those are my
8 questions.

9 MR. QUESNELLE: Thank you, Ms. DeMarco. I think we'll
10 wrap up there as far as cross-examination goes today. Ms.
11 Girvan, I'll have you up first tomorrow, followed by Mr.
12 Brett. And as we discussed earlier, the scheduling won't
13 allow us to do any more than panel 1 tomorrow and we'll see
14 you in the morning.

15 And I'd like to -- just looking what we have
16 estimated, it looks like we are on target to finish up
17 before a lunch break. I'd like to not interrupt the short
18 day with a lunch break. I'd like to go until lunch and if
19 that takes us to one o'clock or whatever, let's plan on
20 doing that and then we'll not sit again until Thursday
21 morning with, starting with Panel 2 at that time.

22 One other item, and this is just a continuation of a
23 conversation we had this morning regarding the treatment of
24 the pension and post-employment benefits, Mr. Vegh, it
25 would be the Board's preference to have this dealt with in
26 conjunction with the elements that referred to -- or
27 reflect the requirements in the transmission as well, so
28 not deal with it here.

1 But that's what a caveat, and we'd like to get a
2 better understanding. You don't have to respond it to it
3 now. We can revisit this again tomorrow. The Board is not
4 clear as to whether or not what's being requested now --
5 or, sorry, if it's not dealt with now, whether or not that
6 places any kind of artificial limitations on the Board's
7 discretion or range of possibilities, if dealt with later,
8 the approach.

9 If Hydro One's approach now is setting up a situation
10 where we can't revisit the full range that are available to
11 us now, we'd like to know that and that's kind of a caveat
12 to our preference. So if you could think about that and
13 let us know tomorrow. Okay.

14 MR. VEGH: Thank you.

15 MR. QUESNELLE: Thank you. With that, we will adjourn
16 until 9:30 tomorrow morning.

17 --- Whereupon the hearing adjourned at 5:12 p.m.

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