ONTARIO ENERGY BOARD

FILE NO.:	**EB-2017-0049**	**Hydro One Networks Inc.**
VOLUME:	**Volume 4**	
DATE:	**June 15, 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 Friday, June 15, 2018,
commencing at 9:32 a.m.

VOLUME 4

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 SAM ROGERS	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
ROBERT WOON	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 VETSIS	Hydro One Networks Inc.

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

E X H I B I T S

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

Friday, June 15, 2018

--- On commencing at 9:32 a.m.

MR. QUESNELLE: Good morning, everyone. Please be seated.

Good morning, Mr. Vegh. Any preliminary matters this morning?

PRELIMINARY MATTERS:

MR. VEGH: Good morning, sir. Just briefly, Mr. Chhelavda requested to make some corrections to his evidence from yesterday. That would be all.

MR. QUESNELLE: Okay. Thank you.

MR. CHHELAVDA: Thank you. If you could bring up pages 40 and 59 of the transcript. So on page 40 -- and it is very similar comments, where Mr. Stephenson asked about the pension contribution and the potential for a funding holiday, where I had responded that in the event that the company took a funding holiday and employer contributions went below employees, there would be a one-for-one reduction.

It is actually incorrect. The way the contracts are written with our union, it states that the employer current service contributions will not be less than the employee contributions for the period up to March 31st, 2025, and there is nothing in the agreement that says that what will happen in the event that the employer contributions fall below that of the employee's contributions, so there is no contemplation of what would happen. That has yet to be decided at some future -- I guess some agreement would have to be made.

MR. QUESNELLE: I'm sure that explains it. But can we just take a look at what line items we should maybe stroke, or is there something -- an actual...

MR. CHHELAVDA: So on page 40 it's going to be line -- I think it's -- if we go down, I think it's going to be...

Sorry, you are on page 48 -- actually, page 40. You're on page 48 of the -- sorry, it's page 32 of the transcript, I'm sorry. Page 40 of the document, page 32 of the transcript.

So it's going to be, I believe, lines 12, 13, and 14 of page 32.

MR. QUESNELLE: Okay. And your explanation that you just provided us would take care of that -- provide the correct information and this would be stroked out?

MR. CHHELAVDA: That's right, and it is a very similar comment on page 51 of the transcript as well.

MR. QUESNELLE: Okay.

MR. CHHELAVDA: I believe those are lines 12, 13, and 14.

MR. QUESNELLE: Okay.

MR. CHHELAVDA: Thank you.

MR. QUESNELLE: Thank you.

All righty. Mr. Ladanyi.

HYDRO ONE NETWORKS INC. - PANEL 2, FINANCE & COMPENSATION, RESUMED

Keith McDonell,

Joel Jodoin,

Samir Chhelavda,

Iain Morris; Previously Affirmed.

CROSS-EXAMINATION BY MR. LADANYI:

MR. LADANYI: Thank you, sir.

Good morning, panel. My name is Tom Ladanyi. I am consultant to Energy Probe, and I sent yesterday -- I did not have a compendium for this panel. I am only going to be referring to five interrogatory responses, which are already in evidence, and one undertaking response. So hopefully you have those with you.

First one we will be referring to is tab 41, Energy Probe 62. If I could have it up on the screen, please.

Yesterday we've seen a lot of similar information, but I believe that this interrogatory that actually I asked puts it all in perspective. And in this interrogatory we asked for Hydro One's total FTEs to be added to table 1 and then total compensation, all categories, including incentive payments for FTE, and percent change in total compensation for FTE from previous year.

So if we can turn to the page with the table on it. Yes. Thank you.

Now, first, a few simple basic questions. In a proceeding roughly a month ago in this very room I found out that a witness for another utility did not have the same kind of understanding of the word or the phrase "FTE", which means full-time equivalent, so let me explain what my understanding of what FTEs is, Mr. McDonell, and then you can either confirm or say it's different.

So what FTE means is a full-time equivalent. It is different from head count. For example, if an employee works for a full year and is on staff on December 31st, the head count for that employee is one, one head.

MR. McDONELL: I agree with that.

MR. LADANYI: However, if there are two employees, each who were hired on July 1st, and they're on staff on December 31st on the head-count list there will be two, but on FTE list there will be one, because each one only worked six months; is that correct?

MR. McDONELL: That would be my understanding as well.

MR. LADANYI: Very good. So the reason why we use FTEs in this room in particular is because FTEs can be easily translated into compensation costs.

Head counts by themselves will produce some inaccuracies if we use them for that purpose, unless all the employees are full-time employees working for the full year, which is unlikely in a large corporation; isn't that right?

MR. McDONELL: Yeah, I would agree. I mean, at Hydro One we do have a fairly steady complement of full-time employees with the exception of our casual employees, which are quite seasonal.

MR. LADANYI: Exactly. And I also worked in other utilities, you may know, and we also had lots of seasonal employees, so head counts did not give you good information about the compensation cost of the utility. You really had to calculate FTEs.

So anyways, so when I look at your table here and I know from every --

MR. VEGH: Sorry, I'm just trying to clarify. Is that a question, Mr. Ladanyi? I know --

MR. LADANYI: No, no, it's just --

MR. VEGH: -- the difference between the FTEs and the --

MR. LADANYI: -- preamble, preamble -- please, okay, no, it was not going to be a question.

MR. VEGH: Sorry, I --

MR. QUESNELLE: Sorry, Mr. Ladanyi --

MR. VEGH: -- I think my concern about some confusion around this, so I think the witness has agreed with your definitions of FTEs, but then you went on to editorialize why FTEs are better than head counts for a number of reasons, and I don't think you were asking the witness's --

MR. LADANYI: No, I wasn't.

MR. VEGH: -- view on that. So that just represents your own point of view.

MR. LADANYI: Yeah, it is a preamble to my next question, if I may say so.

Okay. And so when I look at the table here, and based on the evidence that we heard yesterday, on some years you actually didn't have FTE information, and so you provided a head count, and I understand that.

MR. McDONELL: You mean for some years on this table or some years --

MR. LADANYI: Oh, some years that were discussed yesterday and also possibly on this table, because that's why you have, in some places you call it head count and some places you call it FTEs.

MR. McDONELL: It's always been a bit of an issue that we did report on FTE, and so to try to improve on our evidence for this filing we endeavoured to use the FTE calculation. It is still early days for us, and I'm sure there's areas for which we can improve, but it's a -- on a best efforts we try to display it on an FTE basis.

MR. LADANYI: Thank you.

MR. QUESNELLE: Could I ask a question then, Mr. Ladanyi? Just given, Mr. McDonell, your agreement, what does it mean when you have both on the same line, "unrepresented head count FTE"? What does that represent. Maybe I'm, sorry, jumping ahead of you here, but before we leave the table --

MR. McDONELL: I think it might just be loose language. Really, that is FTE. You can ignore head count.

MR. QUESNELLE: Okay.

MR. LADANYI: Very good. Thank you.

MR. McDONELL: Could I -- maybe I should wait for you to ask the question, but I was going to refer you to page 9 of my evidence, where we actually try to define our FTE interpretation, if that's of any help to you. That's at --

MR. LADANYI: Do you want to turn to it, or I probably would agree with your definition anyway. Nothing hinges on it too much because we're going to go into a slightly different area in a moment. I just wanted to establish the basis of this table. That's all.

So when I look at the table --

MR. VEGH: So maybe just for the purpose of clarifying the record, you can -- what was the evidence reference you had? We don't have to turn to it, but we should just have it.

MR. McDONELL: For reference, it is at Exhibit C1, tab 2, schedule 1, page 9. There is a footnote number 2 that defines FTE assumptions.

MR. QUESNELLE: Thank you.

MR. LADANYI: So the purpose of me asking this particular interrogatory was to see what the compensation costs actual are, which is all-in costs that the ratepayers are effectively being charged, and the numbers are quite scary, actually, at least from a -- I would say a perspective of ordinary ratepayers paying rates to Hydro One.

When you look at -- and you can pick any year, it doesn't actually matter, pick any year, even 2014, but let's go to a current year, 2018. For each unrepresented person working for Hydro One, the total all-in compensation with everything is $258,000. Okay? Then you go a line below that. For each Society person or employee working for Hydro One, the total all-in compensation is hundred-and-eighty-six-six thousand dollars; do you see that?

MR. McDONELL: I do.

MR. LADANYI: Then you go down and you see for HPWU employee, it is $169,890. And then for temporary -- now we get into a more sensible range -- $85,673, and the average for the entire complement of all classes of employees it's $149,058.

I'm not saying this is just to get outraged or anything. These are the numbers, and I'm sure you are concerned about these high compensation numbers, no doubt.

MR. McDONELL: Absolutely, and I think I made that quite clear in my opening address yesterday. But I would also point out, though, that these are fully burdened compensation that includes pension and OPEB, base rate, overtime, everything.

MR. LADANYI: And I do understand that. But all in, and that's the key, you really have to look at the total cost of compensation because so many things, when you discuss just salaries or just incentive payments, you do not get the full picture. This is what actually is being recovered from ratepayers in rates.

MR. QUESNELLE: Mr. Ladanyi, there is an awful lot of context for questions. We're getting the point here. But do you have a question?

MR. LADANYI: Yes, I do have a question. So here we are. So with a company with that kind of, let's say compensation issues, you are trying to control these costs and I understand that you were -- you inherited from Ontario Hydro legacy labour contracts, particularly for Society and for PWU, which you are trying to deal with. But there's very little you can do actually about it, isn't that right?

MR. McDONELL: I think we talked about this a fair bit yesterday. I mean, certainly there is a challenge when you have a heavily unionized organization like we do. That's not to say that we haven't made improvements in our compensation cost, because I think we actually have done and I think our evidence supports that in many ways; changes to our benefit plans, increased pension contributions, changes to the way we do the work.

So where we do have flexibility, we make changes. Where we have less flexibility, I think we also have made changes in our rounds of collective bargaining. As a matter of fact, as part of our evidence, we actually compare -- you referred to Ontario Hydro. We referred to a number of classifications that started at the same basis back in Ontario Hydro and we show how over time we now compare to our successor companies, being OPG, the IESO, and our compensation actually looks pretty good compared to that.

I will just give you that reference for your future -- so that would be at Exhibit C1, tab 2, schedule 1, page 49 to 51. You don't have to turn to it right now, but what it does show in 1999, fairly heavily populated classifications, PWU and Society, how we all started off and how we are looking in 2017, and now our base rates and what the percentage increase has been over that period of time. And Hydro One shows quite favourably compared to our successor companies.

MR. LADANYI: Thank you. So in your labour contracts with those two unions, there are some -- are there job protection provisions whereby when someone retires, you have to replace that person with someone else who is also in the union?

I think what I'm getting at is that somebody in your situation --

MR. VEGH: Sorry, is that a question?

MR. LADANYI: Can I finish my question, please, Mr. Vegh? I can't even clarify it and you cut in. It is a simple question.

MR. VEGH: Sorry, you were describing what's in the contract. I don't see any reference to a contract. I don't see any reference to the evidence.

MR. LADANYI: No, no, I'm going to ask him about it. Can you give me a chance, please?

When someone retires, are you required to replace them with a person again in that union, or can you -- you are the freedom to hire someone non-union for that position?

MR. McDONELL: Well, that's -- it's a broad question. Any time that there is a vacancy resulting from, say, a retirement, there isn't an obligation necessarily backfill for that position. If there is ongoing work to support it, yes, there would be a collective agreement because there are scope clauses within collective agreements, PWU and Society.

So if a line maintainer retired, we would first make the decision whether or not that role needs to be replaced and if it doesn't, we don't have to fill it. You know, we're subject to a grievance, of course. If we don't, we have to demonstrate that there's not ongoing work.

But if there is ongoing work, yes, I would agree that we fill that with a PWU-represented employee.

MR. LADANYI: So I'm looking at the top of that table. Over the years, up to 2022, I see the numbers for the represented groups to be about constant.

You're actually not -- you don't have a program to reduce those numbers at all that would have an effect of reducing your overall compensation costs?

MR. McDONELL: Sorry, I didn't get the question. You want to confirm that the numbers aren't decreasing?

MR. LADANYI: The top chart. If you look at, for example, the for FTEs in each group, PWU for example, from 2014 all the way to 2022, the numbers are roughly constant. You start at 3,342 and you end up, looking right across, at 3,395. So there is no program to reduce the number of people that are in represented groups?

MR. McDONELL: Yes, I guess I would agree with you that there isn't a program to reduce necessarily PWU-represented employees.

I guess I would also point out, you know, that the numbers are slightly decreasing, but this -- you also have to keep it in mind that we also have a growing work program and to supplement and be able to complete that work program, we have other resources. For instance, I think you heard yesterday about the PWU Hiring Hall, a contingency labour. That's how we would adjust to make sure we can complete the work program.

MR. LADANYI: Wouldn't, let's say, contracting out and greater use of temporary workers allow you to cut costs better?

MR. McDONELL: Well, we do have -- we do have contracting-out language with our PWU. There is a process that we have to go through to get agreement. But it is difficult, especially for trades employees, because rather than contracting out, we would use the PWU Hiring Hall, which is a beneficial resource for us because they don't join our pension plan, they don't join our benefit program. They're -- they're laid off easier without costly severance program -- or severance costs. So that's an economic model that we use in order to supplement our regular force instead of contractors.

MR. LADANYI: Very good. Just one last question on this table. When I look at the temporary workers -- so these people would not have all of these benefits. That really accounts for the much lower compensation per temporary worker, is that right?

MR. McDONELL: Temporary workers don't join the pension plan and have benefits.

MR. LADANYI: Thank you. We'll go to an entirely different area now, and this will be for Mr. Chhelavda now.

And if we can turn to tab 25, Staff 123, please. Okay. Mr. Chhelevda, do you report to Mr. Lopez?

MR. CHHELAVDA: I do, yes.

MR. LADANYI: Very good. Were you involved at all, by the way, in preparing this response, or did you see it before in some version earlier? I just want to know whether this is the first time you're looking at it, or you've seen it before.

MR. CHHELAVDA: I'll say at a high level, I'm familiar with it. Was I involved in preparing it? No, I was not.

MR. LADANYI: Just to get an idea of your role, can you tell me the titles of the people who report to you?

MR. CHHELAVDA: The title of the people who report to me? I actually have three direct reports. I have a manager of -- manager of external reporting, accounting policy, and regulatory accounting, the manager of corporate accounting and pay, and the manager of internal control and compliance.

MR. LADANYI: Very good. I was hoping you'd say budgets as well. So budgets are not under you?

MR. CHHELAVDA: They are not, no.

MR. LADANYI: But you are familiar with the budgeting process at Hydro One?

MR. CHHELAVDA: I am, as is my colleague, Mr. Jodoin.

MR. LADANYI: Very good. So what I am wanting to know really is this, and what I would call a two-budget problem. So when the budget was prepared, let's say for this current year we are in, 2018, were the people instructed to prepare budgets as if the productivity initiatives were achieving the savings expected, or were they told to prepare budgets as if they were not achieving the expected savings?

MR. JODOIN: Sorry, if you don't mind, could you just

repeat your question?
MR. LADANYI: Well, exactly. So you have certain initiatives, and they are listed here, and we will not go through those at all. Were the people when they were preparing the budgets for this year or possibly now for next year, they might be working on budgets right now for next year, were they told, people who prepare budgets, that assume that all of the savings are being achieved 100 percent? Is that the baseline budget? Or is that the baseline budget that the savings are not being achieved, or is it something else? Can you tell me?
MR. JODOIN: So what I can confirm is what is built into the budget are savings at target levels, and what this interrogatory provides are exactly those.
MR. LADANYI: Okay, so let's go to the actuals, Mr. Chhelavda. So now every month you receive actual results, and I presume there is also quarterly financial statements as well? You have quarterly results?
MR. CHHELAVDA: That is correct.
MR. LADANYI: And you were measuring those results against the budget that assumes that all of the savings have already been achieved; is that right?
MR. CHHELAVDA: So when we measure against the budget we would -- we would look at the actuals, so we would see -- we would have an expectation of results, right, based on your budget or forecast, and if they were not achieved or they were achieved, or if you have a -- if you have -- if the results are not meeting expectation, then

you would ask the question, like, why are you exceeding budget or not, so does that answer your question?

MR. LADANYI: Yes, it does. So when, for example, some numbers are below budget, it could be for a variety of reasons.

MR. CHHELAVDA: Yes.

MR. LADANYI: Like if certain cost is below budget, including a productivity initiative. So how do you find out what it really is? Like, do you have some -- what method do you use to make sure that the productivity initiatives are the ones that are achieving the savings and not something else; for example, delayed spending on something?

MR. JODOIN: I think what's important to remember about the productivity initiatives embedded in this application is that there are underlying unit metrics or specific measures that we can quantify against when actual results come in, so we can properly report. And as you heard in panel 1, these productivity initiatives are included in our external reports. These productivity initiatives are included in this application, which include substantial revenue-requirement reductions ranging from 35 million upwards to 50 million annually. And essentially, because they are built into this application we are committed to refunding the customer those amounts.

With respect to actuals, we have an ongoing process, as you mentioned -- you probably heard this in panel 1 -- of a monthly governance finance process that looks at the actual unit measures relative to the budget and we report on it.

All of that being said, there was an undertaking provided with panel 1 that was going to break down the calculations for the top three productivity measures in this particular interrogatory, and I believe -- I believe they were the move to mobile procurement in telematics. In any case, we are going to provide all of the data and calculations and associated unit metrics that build it up.

So what that will provide you is a flavour of how we're tracking it and how we're going to report against it when actuals come in.

MR. LADANYI: But in actual financial statements, the productivity initiatives, some of the savings will be in capital expenditures, so they will show up eventually in compliant accounts. Others will be in operation maintenance and administration. They will be spread out all over the place, so they will not be immediately -- I can't see how they would be immediately visible, for example, in monthly financial statements or in quarterly financial statements.

MR. VEGH: Before the witness attempts to address this, I would just point out, Mr. Chair, that Mr. Lopez was on the stand for a day and a half and answered questions around and provided information around the review and evaluation of an assessment of productivity initiatives and how that's being conducted.

And so Mr. Ladanyi had the opportunity to ask Mr.

Lopez a lot of questions about that. I believe Mr. Lopez has provided the answer. It seems that we are rehashing a lot of that right now, and so I'd suggest that the information on these points are already on the record and are coming in through undertakings and it's not appropriate to be re-doing the cross-examination of the first panel through the second panel.

MR. QUESNELLE: Mr. Ladanyi, how is it that this line of questions is different from --

MR. LADANYI: It is actually -- I particularly saved this for Mr. Chhelavda, because he is responsible for financial reporting, isn't he? Mr. Lopez, I thought, was a kind of a high-level person, and these are fairly technical questions. I thought it would be -- this is a technical panel, as I saw it, and --

MR. QUESNELLE: Sorry, I think perhaps part of the problem may be that the context you are building is at a high level. If you could keep your questions to the -- I think what you're getting at is the financial reporting on this is what you're interested in and how is it that the reports inform management of their achievements, so if we can keep it at that level I think this is the appropriate place to be asking this, Mr. Vegh, but I think the context that is being provided may be at the high level.

MR. LADANYI: Thank you, well, as I have very limited time I am not going to pursue this further. I am just going to ask one single question -- I hope it won't upset Mr. Vegh -- is that -- so there is external auditors. Your internal auditors are KPMG? Who are your external auditors?

MR. CHHELAVDA: Yes, our external auditors are KPMG; that's right.

MR. LADANYI: So KPMG are involved in quarterly financial statements? They actually review them and approve them, don't they?

MR. CHHELAVDA: They review them and provide a review opinion, yes.

MR. LADANYI: Would they also be reviewing and approving some report on productivity initiative scored on a quarterly basis?

MR. CHHELAVDA: They would only review them to the extent that they are included in the quarterly MD&A and we discuss them, so they would look at the reasonability of the disclosure around it, but they wouldn't specifically review the achieved productivity, no.

MR. LADANYI: I'll leave that whole area. I am going to go to one more thing, because my time is going to be up in a minute --

MR. QUESNELLE: Mr. Ladanyi, just to interject for a sec. Could you explain to me, when you refer to KPMG as your external auditor, your external financial auditor, or is this a --

MR. CHHELAVDA: External financial auditor, yes.

MR. QUESNELLE: So that is your external audit, so it is not just your annual reports that they are looking at? They are actually looking at external audit of this level of detail on an ongoing basis? What kind of engagement is that?

MR. CHHELAVDA: No, they look at our annual audit statements. In every quarter our statements are reviewed --

MR. QUESNELLE: Right.

MR. CHHELAVDA: -- so they wouldn't look at the productivity, but to the extent that one of the reasons why a certain line item decreased, let's say OM&A, and if we had productivity, we would put the information in our management discussion analysis, and it would just ensure that disclosures around that is reasonable and plausible.

MR. QUESNELLE: So it is for external, it's not a contracted internal audit. It is your external audit.

MR. CHHELAVDA: Right.

MR. QUESNELLE: Thank you.

MR. LADANYI: If we can turn to Undertaking JT2.8.

Before we -- before I ask you -- actually ask you anything about this interrogatory response, can I just have a general idea of -- so as I understand it, Hydro One exchanges compensation policy so that more of the employees' compensation is dependent on performance; is that right?

MR. McDONELL: Yes, for non-represented employees, yes.

MR. LADANYI: Right, so you were trying to provide incentive for these employees to perform better; is that right?

MR. McDONELL: Yes.

MR. LADANYI: Okay, so which particular -- so this is there to solve a particular problem. What problem did you think -- they were not performing well enough and this is going to make them do what better?

MR. McDONELL: Sorry, I don't think it's an issue about trying to solve a problem; I think a short-term incentive program like what we're referring to here is really to incent employees and incent their behaviours and align their behaviours with the corporate goals and objectives to obtain -- or to achieve our overall strategy, so it is essentially aligning everybody, and by having individual goals that's aligned with corporate goals, the company will be successful and employees will be rewarded for that.

MR. LADANYI: So -- and you hope this is going to work; isn't that right?

MR. McDONELL: Well, I'm not sure about the hope. I mean, short-term incentive programs are a fairly common program for compensation for non-represented and management employees. I don't think we are doing anything particularly unique compared to other companies.

MR. LADANYI: So when you look at this undertaking response, what I read here is that in 2018, there were certain percentages of employees that were in significantly exceeds category, then they were exceeds category, meets expectations, and so on.

What I read here is that -- let's start like this.

Are you hoping that more employees will move into the "exceeds" from the "meets" group?

MR. McDONELL: Well, sure, because the more people that exceed their goals, the better for the organization, for sure.

That said, I mean you are comparing everybody to everybody and a good short-term incentive program is going to have some sort of distribution, some sort of normal distribution.

This particular year -- I can't recall if you were here yesterday; we did talk about this, but this particular year shows a little bit higher percentage in the exceeds and significantly exceeds -- especially the exceeds, because we had a strong year. And just one final comments was -- and this was an AMPCO undertaking that I took.

Previously, we had more people in the exceeds and our senior management took a look at that and said, you know, it's probably better to have a more of a normal distribution. So we went back and we calibrated all our employees, and some employees actually went from the exceeds to meets, and from meets to meets most but not all, which is a good thing because that's showing that the senior management team is looking at this and making sure that when we spend short-term incentive dollars, we are spending it wisely.

MR. LADANYI: So I gather the situation was if too many people move into the exceeds, then your compensation costs are too high and then you are going to push some people back into the meets.

MR. McDONELL: I wouldn't necessarily say it's too high. It's just that we are trying to achieve a bit more of a normal distribution.

MR. LADANYI: Over time -- and when I listened to you explain what happened yesterday, I got the impression that over time, people would be perhaps a little discouraged by this and saying we thought our performance was good or better than -- but we were pushed back because the company decided that they really didn't have enough money to pay us that at the exceeds level.

MR. McDONELL: One of the things that we coach our managers with on assessing employees is meets is a good rating. There is nothing wrong with meeting your expectations.

And to get into the next category, there's got to be a big stretch in order to get into the exceeds. So I think we are managing this program well, and we're setting the expectations that just because you didn't get into an exceeds category, it's not a reflection that you are a poor performer; it is not that at all. If you meet expectations, you are doing well.

MR. LADANYI: Is there a quota per department of how many exceeds there should be, or how many meets there should be?

MR. McDONELL: No, I wouldn't say there is a quota. But what we have done this year in particular is we've gone through what we call a calibration exercise with all our managers, because if you and I are both rating our staff, I might be more lenient than, say, you are.

So what we do is we gather all the managers from departments and lines of businesses together, and everybody has to explain their rating. And through that process, then you are able to start making assessments to make sure everybody is rated pretty much on the same level. So we do see, through the calibration process, some people shifting categories because when they give their assessment about somebody, it may be that they are in fact too lenient or too strong, and we make adjustments when other people get to take a look at how individuals have been rated.

MR. LADANYI: Okay, thank you.

MR. QUESNELLE: Mr. Ladanyi, just before we take this chart off, Mr. McDonell, yesterday you mentioned this and you mentioned it again this morning, I just had it twigged to me.

You mentioned this particular year there is a higher level than what you'd normally have in the distribution for exceeds because it was a good year corporately.

How does that feed back? How does the fact that it was a good year on a corporate basis feed back? I would have thought it's a bottom up. If it's a good corporate -- the corporation had a good year because so many people exceeded their...

MR. McDONELL: You'll remember yesterday we went through the STIP program. We looked at the formula and there was a team component, and there was an individual component.

MR. QUESNELLE: Um-hmm.

MR. McDONELL: And the team component, if we just meet all our targets, it will pay out at a hundred percent. But if we had a -- if we achieved higher than target, which we did in that STIP year, then it is going to pay maybe -- I can't remember the exact number. It might have been 120 percent of target.

MR. QUESNELLE: But it still is a team contribution. It is not as though there was a windfall weather change and everybody shared in the benefits.

When you say the corporation had a good year, therefore we had exceeds, I was getting the impression that something happened beyond the team level of control and it came back to them in a certain fashion. That's not the case?

MR. McDONELL: No, no, that's not the case.

DR. ELSAYED: May I make a clarification as well? When you talk about a normal distribution, I understand under recalibration if the distribution of the percentages becomes skewed. But do you go back as well when it does deviate from being a normal distribution, to examine whether the targets, the performance targets are challenging enough?

MR. McDONELL: The individual targets or the corporate targets?

DR. ELSAYED: Both.

MR. McDONELL: I guess on the corporate targets, what

I would say is that our board of directors, they do finally approve the targets that are on the scorecard. And I can tell you -- I think maybe Ms. McKellar mentioned this last year when she sat here, they take a very strong interest in what the targets are, especially the maximum targets, and they want to ensure that they are in fact good stretch targets because there are compensation dollars attached to it.

So I would say that definitely there is some calibration at the Board level for our maximum targets on the team scorecard.

For the individual, I would say yes, because I would set my targets with my boss, and then we would have a discussion whether or not those targets are appropriate or not. And then ultimately, they are signed off by my manager once removed. So another more senior person gets to take a look at those targets to make sure that they are in fact appropriate.

DR. ELSAYED: Do these targets gets recalibrated or re-examined over time from year to year in terms of, I guess, being more difficult?

MR. McDONELL: I'm not sure if there is a formal Process. But take me, for example; over the last couple of years, I -- a lot of the projects that I have been doing have been consistent. It is the same thing. So every year, my boss would be expecting that my targets are going to be a little bit harder because they are similar to what I did the year before.

DR. ELSAYED: Okay, thank you.

MR. QUESNELLE: Thank you.

MR. LADANYI: I know I'm over time. Can I have one more question?

MR. QUESNELLE: We've been eating up the clock a little bit on you, Mr. Ladanyi, so sure. Go ahead.

MR. D'ANDREA: It's about deferral and various accounts and I think these are Mr. Chhelevda's responsibility, aren't they?

MR. CHHELAVDA: They are, yes.

MR. LADANYI: You don't have to turn to it, but we asked some interrogatories about the 2017 balances, whether they're available. And at that time, when the interrogatories were answered, you said they were not.

They're available now, aren't they, the 2017 balances in deferral and variance accounts?

MR. CHHELAVDA: They would be available, but I believe we are not seeking clearance of 2017 balances. This was the 2016 audited balances are being...

MR. LADANYI: And you actually answered that in the Energy Probe -- tab 57, Energy Probe 70.

MR. CHHELAVDA: Yes.

MR. LADANYI: And if I can just -- so I don't think I'm going to take you through that, because time's running out.

So if I can take you to tab 4, Energy Probe 3, and this was actually not your response; it was Mr. Andre's response.

If you turn to the table on the next page, we had asked what would be the effect of recovering 2018 rates starting January -- let's say all of the rate increases in 2019, and this is what we got. And your response in Energy Probe 70 essentially talks about that as well.

So you have not decided yet what would you will be asking actually for that?

MR. CHHELAVDA: I believe this is a question that's best answered by Mr. Andre, and he will be up on, I think, the load forecast panel.

MR. LADANYI: Correct, that's fine. I'll ask him that again. But the numbers that I see on -- in this response in Energy Probe 3 -- tab 4, Energy Probe 3 is really what you were talking about in your response to -- in tab 57, Energy Probe 70. That's the only confirmation I want from you. I don't want you to check the numbers or anything like that. Is that the same -- it is the same concept.

MR. VEGH: Can we look at that? What was the number again, the other interrogatory? Just cross-reference?

MR. LADANYI: Yeah. Cross-reference, tab 4, Energy Probe 3, which was a -- versus the response in tab 57, Energy Probe 70.

If you feel this is too complicated we can leave it for Mr. Andre when he comes back at the end of the hearing. I don't want to take much time. If you don't have a clear answer it's all right.

MR. CHHELAVDA: Mr. Ladanyi, just so I'm clear, on Exhibit I, tab 57, schedule -- Energy Probe 70, what we're talking about here is just the period of time over which the deferral and variance accounts would be recovered, and Mr. Andre's interrogatory actually quantifies the dollars.

MR. LADANYI: Yes, so they are talking about the same thing, more or less, just about different -- slightly different subjects.

MR. CHHELAVDA: Yes, one is the numerical calculation and the other one is just the recovery period.

MR. LADANYI: Right.

MR. JODOIN: Sure, I would just like to add one more part to that, in that Mr. Andre's calculation would be on the total revenue requirement, and this would be a component of that.

MR. LADANYI: Definitely.

MR. JODOIN: Okay.

MR. LADANYI: Thank you. Those are all my questions.

MR. QUESNELLE: Thank you, Mr. Ladanyi.

Ms. DeMarco.

MS. DeMARCO: Thank you, Mr. Chair. I do have one preliminary matter. We have filed this morning a compendium of documents, but I find myself in a somewhat embarrassing situation, in that one of the documents we filed is the 2017 annual report of the company, and that, as a function of my oversight, I understood that I was reading from the 2016 and '17 annual reports in the evidence.

MR. QUESNELLE: Okay.

MS. DeMARCO: Which is the historical year and the test year, the bridge year. In actuality I was reading from the 2015, 2016, and the 2017 report was not in evidence, only one quarterly report from 2017.

MR. QUESNELLE: Okay.

MS. DeMARCO: So I have not done the courtesy of providing Mr. Vegh and his panel with the full 24 hours to review that 2017 annual report, with apologies and embarrassment, and so I'm happy to proceed in one of two ways, at the discretion of the Board and my friend Mr. Vegh. I'm happy to seek an undertaking for them to provide the 2017 annual report, which has actually just been circulated and filed, and ask just general questions without specific reference to it; and/or I'm prepared to ask questions subject to check, or whatever is at the convenience of the Board and my friend Mr. Vegh.

MR. QUESNELLE: Mr. Vegh?

MR. VEGH: Thank you, sir. It is not so much the embarrassment; it is just a matter of giving the witnesses the opportunity to prepare. So the document is -- you know, it's not something that can't be produced in the normal course. I'm not sure an undertaking is necessary, I'm just concerned about being able to -- our concern about conducting a cross-examination on materials that the witnesses haven't reviewed or been -- or been shown.

I'm not really sure what the solution is. I don't think it's appropriate to just ask generally and then have them comment on it. If they are -- I would propose that, you know, the questions can be put by reference to specific references in this document, but they -- you know, if they're not in a position to answer, they just advise that they're not in a position to answer.

MR. QUESNELLE: And where appropriate provide undertakings?

MR. VEGH: It -- well, it would probably depend on the --

MR. QUESNELLE: Where appropriate, it depends.

Ms. DeMarco? I think that was one of the offers that you were suggesting?

MS. DeMARCO: It is, and again, I reiterate my apology to both my friend Mr. Vegh and to the panel. That was my oversight and purely mine.

MR. QUESNELLE: Okay, so we do have ready access to the document now or -- yep, okay, all right.

MS. DeMARCO: Perhaps then we should mark it as an exhibit.

MR. SIDLOFSKY: We can mark that as K4.1.

EXHIBIT NO. K4.1: ANWAATIN CROSS-EXAMINATION COMPENDIUM FOR HONI PANEL 2

MR. SIDLOFSKY: Ms. DeMarco, have you given copies to the panel already?

MS. DeMARCO: It has been circulated electronically.

MR. SIDLOFSKY: Okay.

MS. DeMARCO: I'm sorry, they don't have paper copies, no.

MR. JODOIN: It is our understanding it was circulated electronically. We don't have paper copies. If we could get the references on the screen we can work that way for now.

CROSS-EXAMINATION BY MS. DEMARCO:

MS. DeMARCO: And as I said, my questions are very brief and at a very high level, very specific to strategic financial direction, and let me tell you, just by way of background, where my areas of focus are. I have three specific areas of focus: reliability, First Nations, and related distributed energy resources and innovation.

Let me tell you where I'm not going to go. Because my colleagues have largely gone there, I am not going to ask you questions about compensation, whether it's LTIP, STIP, PSU, or RSU.

And so with that, let me ask you first to turn to attach -- sorry, Exhibit A-6-4, attachment 1, which is the 2015 annual report, and this is not in the compendium, but in evidence, specifically page 8. That's right.

So you've got that up there. Very specifically, this is a page focusing on serving customers. And can I ask you to turn to the paragraph that's under the heading "customer commitments". And specifically, Hydro One indicates in that paragraph that it is giving five commitments to provide assurance to customers about the service they can expect from Hydro One. Do you have that?

MR. CHHELAVDA: I do, yes.

MS. DeMARCO: And do I have that right? That is a Hydro One commitment as to what customers can expect from Hydro One?

MR. CHHELAVDA: That is correct.

MS. DeMARCO: And the second commitment there is that "we will provide with you a reliable supply of electricity"; that's correct?

MR. CHHELAVDA: I see that there, yes.

MS. DeMARCO: And that is a commitment of Hydro One?

MR. CHHELAVDA: That is a commitment of Hydro One.

MS. DeMARCO: Secondly, "we will make it easy to do business with us", also a commitment of Hydro One to its customers --

MR. VEGH: May I just interrupt for a moment. The words say what they say, and the witnesses are confirming that, but in terms of, you know, the subject matter, reliability, First Nation distributed energy resources, this is the finance panel. Reliability will be more specifically addressed in upcoming panels, I believe 3 and 4, customer communication will be addressed in the panel this afternoon.

So I -- I do wonder where we're going by simply reading this commitments and having the finance panel, which doesn't deal with these sorts of issues, confirm what these documents say.

MR. QUESNELLE: Ms. DeMarco?

MS. DeMARCO: It's my understanding that this panel is responsible for and accountable to what is in the financial reports that are publicly filed as financial statements. If I've got that wrong, I'm happy to put these financial statements and this annual report to a panel that's responsible for public documents that are filed.

MR. QUESNELLE: I think that the statements of the customer commitments in the annual report is context for the financials, perhaps, but I don't think that they're directly related to the financials, Ms. DeMarco. It's -- you know, the fact that they were issued at the same time, that the annual report contains the financials, I don't think the reverse, you know, holds true that this panel then is -- can provide you with the context and commitments that goes to the narrative in the annual report. I'm not seeing the connection.

MS. DeMARCO: It is just specifically in relation to what the company is publicly filing in its financial statements, which include, I would assume -- if I've got this wrong let me know -- the annual report, the management discussion and analysis, and specific material, financial risks associated with that.

MR. QUESNELLE: Right. Well, I think you are into areas that would surely -- yes, the management discussion on that. But I think these customer commitments -- I take Mr. Vegh's point that this is an area of the annual report that may not be -- it may be more helpful to discuss this with the other panels.

The other areas that you just discussed, I can see your point there in tying it to the financial. But this is a rather tenuous connection between these customer commitments in the annual report and the financial statements. I'm not seeing the direct linkage.

I'm agreeing with Mr. Vegh that it may be best to put that type of question to either the customer engagement or reliability, whatever the subject matter is in the commitments.

MS. DeMARCO: I'm happy to. Just the fact that they exist in the annual report is all I need to get on the record.

MR. QUESNELLE: Well, I think they're there and I didn't think that -- it's on the record now.

MS. DeMARCO: That's helpful. I just want to in fact ensure that in relation to the risks and the associated commitments in the financial report, they're made to all customers, including First Nation customers.

MR. VEGH: Again, I'm not sure that this panel can shed much light on that kind of issue. They can answer questions about their financial statements. There is a panel coming up that will address First Nations issues. If there are specific issues and commitments with respect to First Nations, it is probably best put to that panel.

MR. QUESNELLE: Ms. DeMarco?

MS. DeMARCO: I'm happy to reserve specific questions regarding First Nations to a subsequent panel. I find myself then in a very difficult position, if we can't refer to financial statements about material risk with evidence on the record in a financial statement that this panel is supposed to speak to.

Whether or not that panel can speak to -- I'll ask you, for example, to turn to page 34 of the 2015 annual report. Here we have a number of statements about material financial risks.

MR. QUESNELLE: I think we've made a closer connection, Mr. Vegh. Ms. DeMarco, go ahead.

MS. DeMARCO: So is it fair to say that First Nations are an important stakeholder in terms of your material financial risks?

MR. CHHELAVDA: I would say the section you are referring to talks about the risks facing the organization and we have, you know, a risk that's identified as First Nations and Métis claims of risk, yes, on this page.

MS. DeMARCO: So they are an important financial stakeholder?

MR. CHHELAVDA: I would say yes.

MS. DeMARCO: And in fact they are also a shareholder of the corporation; is that fair?

MR. CHHELAVDA: I believe there are -- there is a First Nations trust that own shares in Hydro One, so yes.

MS. DeMARCO: And looking at this paragraph here, we've got two elements of First Nations and Métis claim financial risk, is that right?

MR. CHHELAVDA: Are you talking about that first paragraph?

MS. DeMARCO: The first and second, First Nations and Métis claims risk, and the second is risks from transfer of assets located on reserves.

MR. CHHELAVDA: That's correct.

MS. DeMARCO: And in that first category of financial risk related to First Nations, we've got a statement from Hydro One in the second full sentence:

"Although the company has a recent history of successful negotiations and engagement with First Nations and Métis communities in Ontario..."

MR. CHHELAVDA: Yes, I see that.

MS. DeMARCO: And that's your view? They've had a recent successful history of negotiations and engagement?

MR. VEGH: Again, Mr. Chair, these are not questions about financial statements. When we're getting into issues of engagements and consultation, that is something that's better addressed by the panel that will be addressing consultation and engagement issues.

MR. QUESNELLE: Ms. DeMarco, I recognize your point that these statements are housed in the annual report and they are connected with the financial statement, and these are statements of risk associated with the finances. But I think this particular panel has an obligation to report on it, but providing the extra layer that you are looking for as to qualifying the status quo as far as negotiations, what have you, this isn't the panel that's engaged in that.

MS. DeMARCO: Perhaps I've been imprecise, Mr. Chair, in how I've gone about this. Let me see if I can refine it.

I am trying to facilitate an understanding of the quantified financial risk associated with these claims. Can you let me know what potential quantification of these...

MR. CHHELAVDA: So the risk factors in our annual report, it does not attempt to quantify the risks. It just tells users of the financial data that these are all the risks that face the organization. Some may materialize, some may not.

One of the standards that we work under is to ensure that our external disclosures are plain, clear and true. So by talking about these risks in this manner, we've satisfied that obligation.

MS. DeMARCO: So is there any quantification of the risks in each of these two categories, financial qualifications?

MR. CHHELAVDA: In this? There is not, no.

MS. DeMARCO: Within the company, is there a qualification?

MR. CHHELAVDA: I'm probably not in a position to answer because I'm not aware. I'm not sure of -- I mean, I'm not aware if it's been done or not.

MS. DeMARCO: Can you undertake to determine whether or not there is a quantified financial risk associated with each of these two categories?

MR. CHHELAVDA: We can try on a best efforts basis, but I'm not certain my answer will change. It will probably be that, you know, we have identified these risks and they have not been quantified because it will be fairly difficult to quantify.

MS. DeMARCO: Fair enough. If it exists, you'll undertake to provide it?

MR. VEGH: Why don't -- perhaps the undertaking would be if there are any changes to Mr. Chhelevda's information on which -- in our evidence, then we'll provide that.

MR. QUESNELLE: That gets to the same place, Ms. DeMarco. Does that work for you?

MS. DeMARCO: I'm not certain if it gets us to that same place. If it exists, certainly we don't -- we're not asking for new information to be created. But if it exists, we'd like the undertaking to be to provide it. If it doesn't exist, fair enough.

MR. QUESNELLE: Well, I think if it exists, then the answer would change.

MS. DeMARCO: That's correct.

MR. SIDLOFSKY: That will be J4.1.

UNDERTAKING NO. J4.1: TO DETERMINE WHETHER OR NOT THERE IS A QUANTIFIED FINANCIAL RISK ASSOCIATED WITH EACH OF THE TWO CATEGORIES OF FIRST NATIONS RISK FOR 2015, 2016, 2017.

MS. DeMARCO: So we've discussed the status of First Nations as stakeholders and as shareholders. In this context, you would agree that they are also rights holders?

MR. VEGH: Mr. Chair, the status of First Nations as rights holder is a pretty complicated issue, and again, I don't think the finance panel has much light to shed on that.

MS. DeMARCO: I'm happy to let that go. Could I ask you to turn to attachment number 2, which is the 2016 annual report?

MR. CHHELAVDA: Okay.
MS. DeMARCO: And very specifically, again at page 31, is it fair to say that those same two financial risks related to First Nations exist, and continue to exist?
MR. CHHELAVDA: I would say those two risks exist. And I would say they're not just financial; they could be financial or operational risks, right.
MS. DeMARCO: Thank you, and then in relation to the 2016 risks to the extent that there is quantified financial information, could I ask that the undertaking you've just provided, that also be provided for 2016?
MR. CHHELAVDA: Okay, we'll -- we'll make sure we include that.
MS. DeMARCO: Thank you.
Now in relation to what I've filed, and again with apologies, in the 2017 annual report, all subject to check, is it fair to say that diversification is a priority of the company?
MR. VEGH: Is there a specific reference you'd like to take the witness to?
MS. DeMARCO: I'm sorry, page 3, Mr. Vegh; that's page 115 of the compendium --
I'm sorry, that's not the right reference. We'll get you the appropriate -- this is the detail. It's page 110.
In your president's report there are three financial strategies, three main strategies that are unveiled: optimization and innovation; is that fair?
MR. CHHELAVDA: Yes.

MS. DeMARCO: Diversification? Is that fair?

MR. CHHELAVDA: I see that as well, yes.

MS. DeMARCO: And you defined diversification as:

"The electricity industry is transforming from a system based on large centralized generation, transmission, and distribution to a localized distribution generation system to leverage capacity."

MR. VEGH: Again, Mr. Chair, I think panels are coming up that will be in a better position to address distributed energy resources and these types of topics that Ms. DeMarco is raising than is the finance panel.

MR. QUESNELLE: I recognize these are, again, in the AG -- annual report, Ms. DeMarco, and -- but you referred to these three strategies as financial strategies. I don't see that they are financial strategies. They're in a -- accompanied in the financial report, but I don't think that makes them financial strategies. I think that Mr. Vegh is correct in that there may be other panels that can assist in this area.

MS. DeMARCO: I'm happy to delve into the detail of them, only that this is a public -- the fact that they exist is important, from our perspective, for the record.

MR. QUESNELLE: They do exist, and I think that if you have questions on them to other panels, their existence could be brought up in that area, yeah.

MS. DeMARCO: I'm happy to. Happy to bring those up in terms of substance.

In terms of page 34 of that report, page 141 of the compendium. Again, just to confirm, we've got Indigenous claims risks and risks of transfer of assets located on reserves as two material financial risks, still in 2017?

MR. CHHELAVDA: We do have those two risk factors, yes.

MS. DeMARCO: And again, can I expand the undertaking to the extent that there is quantified financial information for 2017, to include that in the undertaking?

MR. CHHELAVDA: To the extent that we have it, we would provide it.

MS. DeMARCO: And on page 38 --

MR. QUESNELLE: Ms. DeMarco, just on the layering on this, if there is a financial quantification of this, and it's in 2017, you are not expecting the company to backdate it and to create quantifications for '16 and '15 if they didn't exist, right?

MS. DeMARCO: No.

MR. QUESNELLE: Like, we're just -- what's the current quantification. Okay. Thanks.

MS. DeMARCO: Yes.

And on page 38 we have got a risk related to transmission assets on third-party lands risk?

MR. CHHELAVDA: I see that, yes.

MS. DeMARCO: And it identifies very specifically financial risks associated with lands that might be subject to land claims?

MR. CHHELAVDA: I see that. Yes.

MS. DeMARCO: And can I just ask you to include any quantification that may exist on this financial risk in your undertaking?

MR. CHHELAVDA: We'll do that to the extent that we have it.

MS. DeMARCO: And those are my questions.

MR. QUESNELLE: Thank you, Ms. DeMarco.

Mr. Sidlofsky.

CROSS-EXAMINATION BY MR. SIDLOFSKY:

MR. SIDLOFSKY: Thank you, sir. Board Staff have a compendium. Mr. Davies is providing copies to the panel.

And that would be Exhibit 4.2 (sic).

EXHIBIT NO. K4.2: BOARD STAFF CROSS-EXAMINATION COMPENDIUM FOR HONI PANEL 2

MR. SIDLOFSKY: Good morning, panel. You may not have paper copies of the Staff compendium. Do you have them now? Oh, good. Would you like more? Because I have a giant pile of them here.

I have three areas that I'd like to touch on with you this morning. And I will identify them and I'll just ask you to confirm that I've -- I've likely got the right people to answer those questions.

First would be Hydro One's request for a deferral account to capture the impacts of accounting standard update 2017-07 that was issued in March of 2017 by the Financial Accounting Standards Board, second area is Hydro One's request to recover $37 million dollars annually in pension costs, and third area would be productivity and compensation. I think I have the right panel for those areas, do I?

MR. CHHELAVDA: You do.

MR. SIDLOFSKY: Okay. I'm going to start with some questions about the deferral account request. And I do have a bit of an introduction to each of the questions here, but I'll try to keep those introductions brief.

In March of 2017 I understand there was a change in the accounting standard for pension and OPEB costs under U.S. GAAP. Could you just provide a brief explanation as to what changed?

MR. CHHELAVDA: Certainly, so the change at a high level is that the Financial Accounting Standards Board had decided that organizations can no longer capitalize the non-current service component of these costs to inventory or property plant equipment.

MR. SIDLOFSKY: So how does that change in the accounting standard affect how you recover your pension and OPEB costs for rate-making purposes?

MR. CHHELAVDA: So currently it has no impact on our pension costs, as we recover pension on a cash basis, and given that our pension plan is in a surplus position on a going-concern basis, all the recovering is a current service cost, so there is no impact on pensions.

From an OPEB perspective, what we are recovering on OPEBs is we're recovering the current service cost and the non-current service cost, so this accounting standards update would have the impact of not allowing Hydro One to capitalize and the non-service component to property plant equipment.

MR. SIDLOFSKY: So that means you can capitalize less of your pension costs -- of your OPEB costs, and that -- but that also means the ratepayers will no longer be responsible for paying any return on rate base for those costs; is that right?

MR. CHHELAVDA: So to the extent that these costs do not go into rate base, that would be correct.

MR. SIDLOFSKY: Right. If they're expensed, they come under -- there is an offset to your rate base?

MR. CHHELAVDA: Yes, they would not be in rate base, correct.

MR. SIDLOFSKY: If we compare the expensing of those costs to OM&A as opposed to capitalizing them, under which scenario do ratepayers end up paying more for those costs?

MR. CHHELAVDA: So we haven't conducted that analysis, but if I'm -- I'm going to think it through, it's almost a -- the impact or the difference should be minimal, just because if they're recovering through OM&A presumably you would be recovering the current year so you would get all the dollars today. If you were going to capitalize it you would get those dollars spread over a period of 40 years. So on a time value of money basis, if you present-value that recovery to today, even with the rate of recover -- the rate base -- the rate of return rate base, it would be a very similar number.

MR. SIDLOFSKY: So you wouldn't expect that the recovering those amounts over time, over 40 years -- but I think your -- I think your comment was "over the life of the assets", right, so --

MR. CHHELAVDA: That's correct.

MR. SIDLOFSKY: -- if we say over 40 years, you wouldn't expect the -- you wouldn't expect that recovery to be greater over the life of the assets?

MR. CHHELAVDA: Not materially, but we'd have to do the calculation to ensure -- or to prove that out, and you'd have to get a lot of assumptions in terms of what is the equity thickness of the organization, what is the ROE component, to figure that out.

MR. SIDLOFSKY: Right, because if you expense those costs, you are not including the return that you would be if you capitalized them, are you?

MR. CHHELAVDA: That is correct.

MR. SIDLOFSKY: So if you were going to capitalize those costs over time, then you are including a return on those costs as well because they are part of rate base.

MR. CHHELAVDA: That's correct.

MR. SIDLOFSKY: Now, Hydro One had a recent proceeding before the OEB on its transmission case -- transmission business related to the same issue, and that was EB-2017-0338. You are familiar with that, I'm sure.

MR. CHHELAVDA: I am, yes.

MR. SIDLOFSKY: In that proceeding, you were requesting approval to establish a deferral account that would capture the impact of the accounting standard change.

MR. CHHELAVDA: That is correct.

MR. SIDLOFSKY: My understanding is that it wasn't only the deferral account that you'd asked for. You clarified your request in the interrogatory process in that proceeding so as to further ask that the Board allow you to make a decision that would allow -- or excuse me, that the Board make a decision that would allow for the continued capitalization of those affected costs for ratemaking purposes. Is that right?

MR. CHHELAVDA: That's correct.

MR. SIDLOFSKY: And that was -- that was in light of guidance from FERC, and my understanding of your position on that was that if the OEB allowed for the continued capitalization of the OPEB costs, then under the FERC guidance, you would -- you wouldn't need the deferral account because your regulator would have allowed the continued capitalization of those amounts.

MR. CHHELAVDA: That is correct.

MR. SIDLOFSKY: Okay. Have I got that right, or is there anything more you can explain about that?

MR. CHHELAVDA: I think you've got it right.

MR. SIDLOFSKY: Okay. I'm just trying to make sure I understand what you're asking for in this proceeding. Are you asking simply for the deferral account, or are you asking for the guidance -- or for the order of the Board allowing you to continue capitalizing those costs?

MR. CHHELAVDA: Ideally, we would like to continue to capitalize those costs; that would be our first preference.

Failing that, then the second option would be the deferral account.

MR. SIDLOFSKY: Okay. So your reference is that the Board allow you to continue with your present practice of capitalization?

MR. CHHELAVDA: That's correct.

MR. SIDLOFSKY: Could I take to you page 1 of the compendium?

MS. ANDERSON: Just before we move on -- are you moving to a new topic area?

MR. SIDLOFSKY: No, I'm not.

MS. ANDERSON: I'll let you finish.

MR. SIDLOFSKY: Although, Ms. Anderson, if you had a question...

MS. ANDERSON: Well, my only question -- I wasn't sure if you were going to get to it. I just wanted to be clear. Where are the OPEB costs budgeted in the custom IR? Are they in OM&A, or are they in capital for the five years?

MR. CHHELAVDA: I was just confirming with my colleagues. My understanding is that in the application, the costs are -- we followed our normal practice and they are embedded in -- a portion in OM&A and a portion in capital.

MR. SIDLOFSKY: So, panel, if I could take you to page 1 of the compendium, that's an extract of the Board's decision in your transmission case where the Board dealt with this issue.

So ultimately, what the Board did there was it approved the establishment of the deferral account, and it went on to say that that account would be effective January 1, 2018, until the effective date of Hydro One's next transmission revenue requirement.

And just moving down the page a bit, the Board found that with respect to the establish temperature of the deferral account -- sorry, with the establishment of the deferral account, the OEB does not need to make that determination now about capitalization of the OPEBs, and the Board recognized that all regulatory options remain open.

The Board went on to find that the matter of capitalization is a long-term consideration that requires careful analysis within the OEB's established rate regulated framework.

So the Board didn't grant you the ongoing capitalization in that proceeding, and are you expecting a different outcome here?

MR. CHHELAVDA: So again, our ask is we would like to continue with the treatment of capitalizing the costs as we believe that is the most appropriate method of matching the cost to the benefit that customers derive from the assets. So it's a proper matching up of the cost and benefits.

So our expectation would be that, you know, the Board would decide to allow us to continue. And should that not happen, then our second option would be to have the deferral account.

MR. SIDLOFSKY: You will recall that in the last couple of days, the Board considered -- considered your letter from June 7th related to another OPEB-related issue and the view was that -- the feeling was that that issue could be dealt with in one form in the transmission proceeding.

Is that something you could see happening with this issue of capitalization of OPEB costs?

MR. VEGH: Panel, I think it's a fair question and -- but I think Hydro One would take that under advisement and get back to Staff on that. I don't think this panel is prepared to answer that right now.

MR. QUESNELLE: Thank you, Mr. Vegh.

MR. SIDLOFSKY: I'm not suggesting a commitment right now, but it does seem -- I'd like to get a sense of where Hydro One would stand on that because it conceivably has some merit as a way of dealing with this.

MR. VEGH: As I've said, I consider this as fair and we'll provide an undertaking to respond it that.

MR. QUESNELLE: Thank you.

MR. SIDLOFSKY: Lets make that an undertaking then, J4.2.

UNDERTAKING NO. J4.2: TO CONSIDER AND ADVISE WHETHER HONI CONSIDERS THE ISSUE OF THE CAPITALIZATION OF OPEB COSTS COULD BE DEALT WITH IN THE TRANSMISSION HEARING (UNDER ADVISEMENT)

MR. SIDLOFSKY: Thank you, Mr. Vegh.

If I could take you to page 3 of the Staff compendium, that is a reproduction of the response to Staff interrogatory 215. And that -- in that that response, Hydro One provided a breakout of the test period OPEB costs between capital and OM&A. And this really sort of follows up on Ms. Anderson's question, but does that table in your response represent what you are seeking to recover from ratepayers related to your OPEB costs for the test period?

MR. CHHELAVDA: It does. So for the distribution component, 26 million would be via OM&A which would be in the current year, and 25 million would be capitalized, if we're allowed to, and then recovered over the life of the assets.

MR. SIFLOFSKY: Sorry, just a question about your proposed deferral account and this is -- takes me a little out of my order here, but would there be a return component built into the balance in that deferral account?

MR. CHHELAVDA: So right now, we would -- our expectation would be if it was a deferral account, it would be comparable to all the other deferral accounts which would, I believe, have some component of return, which would be at the OEB's prescribed rate.

MR. SIDLOFSKY: Okay. Now, taking you back to the table again in your response to Staff 215, does the amount shown in the capital row still include the capitalization of those costs that are no longer permitted under U.S. GAAP?

MR. CHHELAVDA: So included in that capital number would be a component of costs that can be capitalized and a component of costs that cannot be. So it is a combination of the two.

In case you recall, what the accounting standards says is only current service costs would be eligible for capitalization. So included in that 25 million, there was a component of current service cost and a component of non-current service costs.

MR. SIFLOFSKY: Okay. I think actually in your response to Staff 217B, which isn't in the compendium, but I think you had said approximately $13 million of the costs shown as capital would need to be reclassified to OM&A?

MR. CHHELAVDA: 217? Yes, we actually have -- I think we calculate that to be approximately 11 million, yes.

MR. SIDLOFSKY: Approximately 11 million?

MR. CHHELAVDA: I'm sorry, it's been updated in Exhibit Q to be approximately 13 million. My apologies.

MR. SIDLOFSKY: Okay. I see that at the bottom of your response to 217(b), right?

MR. CHHELAVDA: That's correct.

MR. SIDLOFSKY: Okay. At page 5 of the Staff compendium -- this is part of the response that you provided to OEB Staff Interrogatory No. 2 in the EB-2017-0338 proceeding. And that's the one we just discussed previously.

Now, in this response you state that:

> "Subsequent to the filing of the application Hydro One's discussions with its auditors has improved its understanding of the requirement surrounding ASU 2017-07..."

That's the statement that reflected the change in accounting standards, correct?

MR. CHHELAVDA: That is correct.

MR. SIDLOFSKY: "...including the eligibility of utilities to continue capitalizing OPEB costs. Hydro One was advised that it could continue capitalizing OPEB costs without the requirement of a deferral account if approved to do so by its respective regulator."

You then go on to mention that:

"FERC in the U.S. has provided such an approval to utilities under its jurisdiction."

So if the OEB provides approval that allows you to continue to capitalize the impacted costs for regulatory purposes then it will be acceptable under FERC standards to capitalize those costs under U.S. GAAP; correct?

MR. CHHELAVDA: So it would be allowed under U.S. GAAP, yes.

MR. SIDLOFSKY: Okay. So rate-regulated accounting under U.S. GAAP would rely on the actions of your regulator here.

MR. CHHELAVDA: That is correct.

MR. SIDLOFSKY: Okay. So you are aware that the OEB regulates other utilities that also follow U.S. GAAP, correct?

MR. CHHELAVDA: I am aware, yes.

MR. SIDLOFSKY: None of those other utilities have come to the Board to request a deferral account or Board approval to continue to capitalize those impacted costs that you are aware of, correct?

MR. CHHELAVDA: I'm not aware.

MR. SIDLOFSKY: Would you suggest there should be some -- some uniformity among utilities that follow U.S. GAAP here in Ontario?

MR. CHHELAVDA: So I believe utilities are -- that are on the same basis of accounting, you know, there should be some consistency, but there is a lot of factors that will impact that in terms of the accomplishment of the workforce. Some of the utilities that follow U.S. GAAP outsource a lot of their capital work, so by virtue of an invoice which would issue from a third party which was embedded, you know, OPEB pension benefits are being capitalized, so it wouldn't be an -- comparing Hydro One to some of the other utilities is not an apples-to-apples comparison, so we have to be a little careful there.

MR. SIDLOFSKY: Would it have anything to do with the amount of -- simply the amount that you capitalize? I think you are at about 50 percent, are you not, for those costs?

MR. CHHELAVDA: It is somewhere in that range.

MR. SIDLOFSKY: I think it's -- if I look at your response to Staff IR 215, and that was on screen earlier, just doing the simple math of 25 over 51 is roughly 50 percent.

MR. CHHELAVDA: That's correct.

MR. SIDLOFSKY: Okay.

MR. CHHELAVDA: But I would like to add that that ratio could change based on work program, so in periods where there is a lot of capital investment you will have a higher portion capitalized. In years where there isn't, more would be expensed.

MR. SIDLOFSKY: So would it average out to about 50 percent or...

MR. CHHELAVDA: That -- I'm not able to answer that on the spot, but I think over the last few years it's hovered in the, I'd say 45 to 50 percent range.

MR. SIDLOFSKY: And are you in any position to compare that ratio to that of other Ontario utilities that still use -- or that use U.S. GAAP?

MR. CHHELAVDA: To the extent that the data is available, it would have to be on a best-efforts basis, but I don't know if other utilities make that data available, and we'd also have to consider the fact that some utilities do contract out a vast majority or a significant portion of their capital work, so it would be an incomplete comparison at best.

MR. SIDLOFSKY: I don't think I'll ask for an undertaking on that. I'll simply -- it appears that you are not aware of the practices of those other utilities, correct?

MR. CHHELAVDA: That's correct.

MR. SIDLOFSKY: And of course if -- I assume that if a lot of that capital work were contracted out, that would be expensed rather than capitalized?

MR. CHHELAVDA: So to the extent if you have contracted out your capital work you would get an invoice from the third party and all of those costs would be capitalized, so in there there could be pensions, OPEB, and even other things that perhaps may not be eligible for capitalization under U.S. GAAP, so you wouldn't -- it would be hard to tell, right? I mean, when you do a -- when you look at a third-party invoice and it's capital work the entire amount of the invoice gets capitalized. That's common practice.

MR. SIDLOFSKY: But it can skew the comparison, I think is what you are saying.

MR. CHHELAVDA: Yes.

MR. SIDLOFSKY: Now, the OEB approved Hydro One's use of U.S. GAAP for regulatory purposes back in 2011; correct?

MR. CHHELAVDA: That is correct.

MR. SIDLOFSKY: And I don't expect you to have the file number off the top of your head, but that -- are you aware of whether that was EB-2011-0399?

MR. CHHELAVDA: I believe for distribution it was EB-2011-0268, I believe.

MR. SIDLOFSKY: It was transmission, but there -- it's really not an issue. The point is that the use of U.S. GAAP was approved in 2011, and you can confirm that.

MR. CHHELAVDA: I can confirm that, yes.

MR. SIDLOFSKY: And at that time when you were seeking approval to use U.S. GAAP, what was the main driver behind wanting to use it as the basis for your financial reporting and ultimately for your regulatory reporting?

MR. CHHELAVDA: So at the time a lot of utilities were looking at moving to IFRS, and there is a difference under U.S. GAAP and IFRS on what costs can or cannot be capitalized, and under IFRS a lot more cost cannot be capitalized, and there was a -- two impacts. One would be significant IT system changes to be able to capture the level of detail of costs that IFRS required, so there would be a -- if I recall correctly, somewhere in the range of 100 million-plus dollars required to update financial systems to attract these costs. And then given that IFRS did not allow you to capitalize certain costs it would result in a significant rate shock to customers, so rates would increase and remain at that high level consistently, whereas under U.S. GAAP you have the ability to capitalize costs that -- it would -- you get to look at the entire costs that are incurred to bring that asset to its intended purpose and for its intended use, so you match the cost of that asset to the benefit derived from customers, so when you look at it from that perspective U.S. GAAP is more beneficial to customers in terms of matching the cost of the asset to the service that they receive, and in effect, it smooths out how that -- how the costs are recovered.

MR. SIDLOFSKY: Does IFRS now allow for rate-regulated accounting?

MR. CHHELAVDA: So IFRS has approved its rate-regulated standard. I believe the International Accounting Standards Board fairly recently just came to the conclusion that regulatory assets and regulatory liabilities are valid. They are still years away from a full-fledged mature standard, and there is always a risk that the standard may not be fully adopted or fully implemented. But as it stands right now there is a rate-regulated standard under IFRS, yes.

MR. SIDLOFSKY: Was that IFRS 14?

MR. CHHELAVDA: That is correct.

MR. SIDLOFSKY: Okay. And the sense I have from your answer is that that's an interim standard; is that correct? Or --

MR. CHHELAVDA: Well, it was an interim standard. Again, it's -- I believe the International Accounting Standards Board has -- to the best of my knowledge, and I may be incorrect, I'm not certain if it is a final standard. I still think there is some form of interim-ness attached to it.

There is a lot still to be finalized and determined. So at this point, I don't -- I wouldn't say it's the final standard. But I could be mistaken.

MR. SIDLOFSKY: But even under the interim standard then, IFRS does allow for rate-regulated accounting?

MR. CHHELAVDA: It does, yes.

MR. SIDLOFSKY: So if the reasons that drove you to adopt U.S. GAAP in 2011 have really been addressed by IFRS 14, is there a reason for remaining on U.S. GAAP for Hydro One?

MR. CHHELAVDA: Given that the rate regulated standard is not final, there is an element of risk in the sense that if a utility were to fully adopt and a standard for whatever reason isn't final, it gets repealed, you'd have to unwind rate regulated accounting. That's a position I don't anybody wants to be in.

But there is also the question of cost of transition. The cost of transitioning from U.S. GAAP to IFRS is significant. As I mentioned earlier, it's in the range of 100-plus million dollars. So given that we've been under U.S. GAAP for a number of years, we have debt that is registered with the Securities and Exchange Commission. Being on U.S. GAAP allows us to compare ourselves or benchmark ourselves against comparable U.S. utilities.

I think we'd have to have a very compelling reason to move away from U.S. GAAP.

MR. SIDLOFSKY: When you talk about the $100 million in costs, is that a result of changing in policies that would require you to expense some items, or is that simply the cost -- the transition cost for updating -- for changing your accounting systems?

MR. CHHELAVDA: It would be the cost of changing all the accounting systems, and all of the systems that feed into it. So it's -- I don't want to get into too much technical detail.

MR. SIDLOFSKY: That's okay.

MR. CHHELAVDA: But under IFRS, you have to component-ize your assets to its smallest level. So that requires a lot of system changes to be able to track that data. It would, in effect, be a new ERP implementation.

MR. SIDLOFSKY: If I could take you to page 6 of the Staff compendium, please, that's an extract from the Province of Ontario's 2016-2017 audited financial results.

Are you familiar with that at all?

MR. CHHELAVDA: I am, yes.

MR. SIDLOFSKY: And that's in their '16-'17 public accounts.

Now, under note 1(b) on that page -- I'm sorry, that would be note (c), my apologies. What that note says is that:

"The province is accounting for the results of Hydro One Ltd. and Ontario Power Generation based on their results prepared using international financial reporting standards, including IFRS 14."

And if Hydro One's results are already being reported under IFRS, then why couldn't Hydro One do the same for the OEB?

MR. CHHELAVDA: So for the purposes of reporting to the province, what Hydro Ones to is we take our U.S. GAAP results and we do a reconciliation to IFRS, and it's based on a certain level of materiality and it's on a best-efforts basis. So what it's doing is it's leveraging off the work that was done a few years back when we were transitioning to IFRS, and rolling that analysis forward.

So the level of precision that is used in that reconciliation, in my mind, would not be the level of precision that I would use for settings rates because there is a -- I'll say a large margin for deviation or error.

It is done at a $70 million materiality level and I would hate for Hydro One to set rates on an IFRS basis and be plus or minus $70 million off. It wouldn't be fair to ratepayers or customers.

MR. SIDLOFSKY: Sorry, just so I'm sure that I understood your answer, the level of detail that you use in the provincial version of the reporting is not as specific as you would in a rate case?

MR. CHHELAVDA: That is correct. There's some estimates that are made, some assumptions, and a lot of the reconciliation is done, you know, on a best-efforts basis as well. There are some elements of that reconciliation that just cannot be done because we don't have the underlying systems to support the gathering or the collection of that data, and it is looking as the differences between U.S. GAAP and IFRS making the assessment of are the Hydro One results in U.S. GAAP -- what would it be under IFRS and we apply a level of materiality.

So it could be -- you could be off, I'll say, plus or minus 70 million, without it materially impacting the books of the province, or the record of the province.

MR. SIDLOFSKY: Okay. Has the company had any discussions about the possibility of adopting IFRS, or have those be dismissed -- has that possibility been dismissed pretty quickly?

MR. CHHELAVDA: We have not entertained those discussions simply because in terms of -- in terms of the cost to implement it would be significant. The level of effort would be significant, and the fact that we are an SEC registrant. And moving away from U.S. GAAP also, you know, also limits our comparability to other peer utilities that we would benchmark ourselves against.

So I think moving to IFRS, as I mentioned earlier, we would have to have a very compelling reason to justify the cost and the level of effort.

MR. QUESNELLE: Mr. Sidlofsky, does the Board Staff intend to make submissions on suggesting one way or the other? I'm looking for what the -- can we talk about what issue we're mining here?

MR. SIDLOFSKY: Staff will be making -- yes, Staff will be making submissions on U.S. GAAP versus IFRS.

MR. QUESNELLE: Was that identified? I missed it as an issue. Is it on the issues list?

MR. SIDLOFSKY: So if you could bear with me for just a moment, sir. I'm just finding the issue for you.

MR. QUESNELLE: Thank you.

MR. VEGH: Sir, while Mr. Sidlofsky looks that up, we never really like to interrupt Board Staff in their questioning, but this is a -- this goes beyond accounting -- Hydro One's accounting policy, and goes to a pretty major policy shift at the OEB.

MR. QUESNELLE: Um-hmm.

MR. VEGH: So again, I'm not sure if -- I'm not sure if you could read that in the issues list, but that would be a pretty significant change that I don't think is being contemplated in this hearing.

MR. QUESNELLE: That's why I'm surprised that it might be on here.

MR. SIDLOFSKY: Sir, I wonder if I could make a suggestion. We were scheduled for the morning break at 11:25. I don't have many questions in this area, but I'd like to address the Board's question.

So I wonder if we could take the morning break now and I'll confirm the issue after the break.

MR. QUESNELLE: That would be fine, Mr. Sidlofsky. Let's break until 11:30.

--- Recess taken at 11:12 a.m.

--- On resuming at 11:31 a.m.

MR. QUESNELLE: Mr. Sidlofsky.

MR. SIDLOFSKY: Thank you, sir.

Just to follow up on the Panel's question from before the break, there are two issues that this witness panel is responsible for -- of course, they are responsible for a much larger list, but there are two that I'd like to draw the Board's attention to.

The first is issue 33: Are the amounts proposed for rate base for 2018 to '22 is appropriate? And the second is issue 41: Is Hydro One's proposed depreciation expense for 2018 and further years appropriate?

This -- my questions for this panel on this -- in this area began with questions about the request related to OPEB expenses and Hydro One's desire to continue using U.S. GAAP in relation to those -- in relation to those costs.

Issue 33 about the amounts proposed for rate base is fairly broad, but clearly, when the Board is considering this request from Hydro One related to its OPEB costs, Hydro One's approach would keep those costs in rate base, the capitalized portion of those costs in rate base. That directly affects the rate base that's proposed for 2018 to '22. Expensing those costs, taking an IFRS approach, would move those costs out of rate base.

Similarly, if the costs are --

MR. QUESNELLE: Sorry, Mr. Sidlofsky, I don't mean to cut you off, but my question was a more narrow one: Does the Board Staff intend to make submissions on whether or not Hydro One should be converting to IFRS?

MR. SIDLOFSKY: Yes. The short answer to that is yes. I --

MR. QUESNELLE: And that's -- so you believe that that issue is captured within the two issues that you just listed?

MR. SIDLOFSKY: I do.

MR. QUESNELLE: Mr. Vegh, is that a surprise to your client?

MR. VEGH: It sure is. The issues that is my friend referred to are just very broad issues: Is the rate base appropriate, is the revenue requirement appropriate? You would think that a major policy change like this would be specifically addressed as an issue, and there would be the opportunity to put more evidence on this, but also just more broadly deal with the issue that arise from this, so I don't think that is implicit in the issues list, and I don't think that's captured in the issue of this OPEB account. We have to address how that's being treated and the request to have it treated under U.S. GAAP, but I think that is a much broader issue and we would object to any submissions based on that issue at all.

MR. QUESNELLE: The Panel did discuss this, Mr. Sidlofsky, at the break. We certainly recognize that the level of capitalization under U.S. GAAP is at play, you know, when we are talking about the capitalization, and I think implicit in that is Hydro One's approach to capitalization, its capitalization policy, and the level of depreciation, I think that's all in play.

But it's a very major issue, I agree with Mr. Vegh, that to consider the ramifications of a transfer to IFRS as if, you know, we've just received evidence of the -- quoting back to a previous amount, back to 2011, of a $100 million expenditure, there has been no discussion on that. I don't know if any of the intervenors were considering that. That might be at play or not. Mr. Rubenstein?

MR. RUBENSTEIN: I don't have a -- wasn't necessarily planning on to provide submissions on the issue of a transfer from U.S. GAAP to IFRS, but -- and I understand since there's been no evidence in the sense of what the numbers would actually look like for the Board to make a decision in this proceeding that rates should be set for the test period on a different method, but I would -- it is not uncommon for parties to make submissions sort of -- the Board should consider something in the future, Hydro One should file evidence on an issue in the future, based on some issues that arose in the proceeding, which is at a different type of submission, and while that's not directly an issue on the rate base, I mean, sometimes that's just the nature of -- usually it's the applicant who drives the issues on the rate base. If they were seeking to change their accounting policy, that would be on the issues list, whereas I agree with Mr. Sidlofsky, that's sort of the accounting policy and -- is obviously encapsulated in a general way and obviously most of the issues in the issues list, so I think it's still appropriate for parties to potentially make submissions, and I would be interested in seeing Staff's submissions on this about possibly in the future these changes may -- should be considered. I think that should still be in scope, or at least that's my view.

MR. QUESNELLE: And I take your point, Mr. Rubenstein, and I think that, again, the narrow question was: Will Staff be making submissions on whether or not there should be a transfer, I think, within this application and a refiling, which is a different animal than contextually, if they were in IFRS, this would not be a problem, blah, blah, blah, those type of submissions, which I think can be -- obviously provide context for a position taken and suggest that the Board might do something in future. That's not what we're talking about here.

This was, I wanted to know whether or not Staff were going to make submissions here that would drive this Panel to make a determination. And that was -- and maybe --

MR. SIDLOFSKY: Sir, perhaps I could clarify. I've just spoken with my colleague Mr. Rozik. Staff's submission will certainly discuss capitalization policy under U.S. GAAP versus IFRS. I think as Mr. Rubenstein indicated that's an -- we suggest that's an appropriate area for submissions. Will Staff be submitting that there should be an immediate transition to IFRS? I think the Board can take some comfort in knowing that Staff won't be making that submission.

MR. QUESNELLE: And Mr. Sidlofsky, I think it's important for this Panel to understand what determinations are people expecting in this application. We don't need to, you know, have a handle at this point as to what your position is going to be, but what -- on an issues list I think it would be identified as: Is this -- the methodology or the accounting appropriate? Is the retaining of U.S. GAAP appropriate? You know, that would be a clear determination that has to be made. I think what you're suggesting is using IFRS as a methodology that would perhaps alleviate some of the concerns you have. That's a different animal than making a submission that this Panel needs to make a determination on the accounting methodology. We need to keep the two separate.

MR. SIDLOFSKY: Understood, and I think I can --

without telling you at this point what our submissions will be, I think they will tend more toward the former of those two.

MR. QUESNELLE: Okay, thank you.

Anything else, Mr. Vegh, or -- great, thank you.

MR. VEGH: Nothing else, thank you.

MR. QUESNELLE: Okay, thank you. Mr. Sidlofsky, if you want to continue your cross then, please. Thank you.

MR. SIDLOFSKY: Panel, are you able to quantify how much more you're capitalizing over the five-year term of this application as a result of U.S. GAAP compared to if your application had been prepared under modified IFRS?

MR. CHHELAVDA: So at a high level when we do our U.S. GAAP to IFRS reconciliation for provincial reporting purposes, we estimate that number of costs that are capitalized under U.S. GAAP that cannot be capitalized under IFRS. It is estimated to be in the range of 300 million to $320 million. And that's total Hydro One.

MR. SIDLOFSKY: Sorry, total Hydro One, so that's distribution and transmission?

MR. CHHELAVDA: That is correct.

MR. SIDLOFSKY: And just to confirm, earlier in my questions about the new U.S. GAAP pension and OPEB standard, you stated that your auditor confirmed that Hydro One would be able to continue capitalizing the impacted OE -- sorry, the impacted OPEB costs in its U.S. GAAP audited statements provided that that treatment was approved by the regulator?

MR. CHHELAVDA: That is correct, and that would be consistent with what a lot of U.S. utilities are doing as a result of the FERC guidance.

MR. SIDLOFSKY: So if the OEB were to say that Hydro One had to adopt the modified IFRS capitalization policy, would that create any problems from a U.S. GAAP reporting perspective?

MR. CHHELAVDA: We haven't fully assessed it, but it may well pose some problems. In effect, you would potentially have, I'll say, two sets of books. They will have a regulatory set of books and a U.S. GAAP set of books.

So again, we haven't done a full-blown analysis, but I suspect it may create some challenges and some potential issues.

MR. SIDLOFSKY: Sorry, if the regulator's actions are dictating how you would -- how you would do your accounting -- sorry, how would there be two sets of books?

MR. CHHELAVDA: So, if -- assume that the regulator says you must follow an IFRS basis, the challenge would be do we have a system to process these and infrastructure in place to track the cost in that manner.

Then I have potentially two sets of, I'll say, systems tracking costs differently. So it will pose a challenge from that point of view in terms of -- you'd have to do a reconciliation between what's allowed for rate-setting purposes and potentially what you reflect in your external financial statements. So that's where I see a potential challenge or issue.

Now, if the regulator -- if what your regulator instructs you to could do within the confines of U.S. GAAP, then it's potentially not a problem. But if it differs from the guidance in U.S. GAAP, then we may have a problem.

But again, absent the analysis, it is too early -- it is too early to tell.

MR. SIDLOFSKY: Most utilities in Ontario are on modified IFRS now, correct, to your knowledge?

MR. CHHELAVDA: I suspect that's correct.

MR. SIDLOFSKY: Does your use of U.S. GAAP pose any problems, in your view, in the context of being able to benchmark your results against those of other Ontario distributors?

MR. CHHELAVDA: To the extent that there would be a comparable utility, you would have a noticeable difference in terms of -- I'm sorry. So you may have a noticeable difference in how you would benchmark OM&A and capital, just because you are now treating them differently.

MR. SIDLOFSKY: Could I just take you to page 7 of the Staff compendium, please? In part of the 2011 proceeding in which you received approval to use U.S. GAAP -- and this is an extract from that decision on page 7 of the compendium -- the Board observed that Hydro One submitted that total cost benchmarking will be more of a challenge as time passes due to the inclusion of depreciation expense and total costs.

Hydro One stated that it will work toward developing solutions to allow appropriate total cost benchmarking in the short and longer term.

With the OEB becoming more reliant on benchmarking, can you explain the progress the company's made with respect to the benchmarking issues raised in that proceeding?

MR. ENGELBERG: While the panel is considering its answer, there is considerable benchmarking evidence in this proceeding. Panel 1 has dealt with quite a bit, and I think we will be seeing more in subsequent panels. I don't know if the finance panel is really the one to be speaking to benchmarking.

MR. SIDLOFSKY: If you have an answer, I'll take it. If you don't, I'll move on.

MR. CHHELAVDA: I'm just not sure on the question. Is the question have we conducted, or what progress have we made on benchmarking of depreciation costs? Is that the question?

MR. SIDLOFSKY: It's capitalization -- capitalization and depreciation.

MR. CHHELAVDA: So just bear with me.

I believe in the 2011 proceeding, Hydro One did review its capitalization policy and found that the percentage of capitalization of its gross operating costs is consistent with the median of the peer companies, both Canadian and U.S. peer companies. And at that time, our overall capitalization rate was 20 percent and it was -- seemed to be consistent with the median of the peer group.

And today, if you look at Exhibit D1, tab 3, schedule 1, page 2 of 3, we can see that in 2018, that rate is at 12 percent. So the percentage of cost in capitalization has decreased.

So it was reasonable at that point, in 2011, it was 20 percent, I'm going to draw the conclusion that as rates are going down, it would probably continue to be reasonable or probably on the lower end. But we haven't done anything further since that 2011 study, to the best of my knowledge.

MR. SIDLOFSKY: Okay, thank you. I'm going to move to a different area.

MR. QUESNELLE: Just on that, I'm not sure, Mr. Sidlofsky, how important this is, but I think we are at cross purposes here with that answer.

What you highlighted, I think, Mr. Sidlofsky, was a challenge that the inclusion of depreciation expense and total cost was going to make benchmarking more difficult as time went on, because Hydro One would be including a higher level of depreciation and total cost. Therefore, the benchmarking with other entities that don't do that would be more difficult.

I think that's the challenge that was identified there, unless I've got it wrong. But from a simple read of that, I think that's what it was, and that Hydro One would be working to develop solutions to that or work-arounds to that.

I think what you've just responded to is the benchmarking of the depreciation level, which is a different thing. So anyway, all I'm getting at is I don't know that there -- if there has been any work, there might be someone else that could look at that. But to Mr. Vegh's point, the benchmarking analysis is made more difficult when one entity within the cohort is including higher levels of depreciation expenses and total cost due to the capitalization policy. That's how I read this statement.

MR. SIDLOFSKY: I think that's right, sir.

MR. QUESNELLE: Okay.

MR. SIDLOFSKY: If I can just is ask for a brief indulgence, sir.

I would like to move on to the area of pension contributions, and I'll ask you to go to page 8 of the Staff compendium.

That's an extract from Exhibit C1, tab 2, schedule 2, of your application. Based on that schedule, Hydro One is seeking to recover approximately a million dollars a year in pension costs from ratepayers for the test period. That's broken down as 17 million in OM&A and another 20 million capitalized assets, correct?

MR. CHHELAVDA: That is correct.

MR. SIDLOFSKY: And what does that 37 million dollars represent?

MR. CHHELAVDA: So that 37 million dollars represents the portion allocated to the distribution business of the total amount of pension costs that Hydro One funds to the pension plan, which is based on the cash basis, which is based on a going-concern valuation.

MR. SIDLOFSKY: Okay. So those are the employer's contributions?

MR. CHHELAVDA: That is correct.

MR. SIDLOFSKY: Okay. And is it the Willis Towers Watson pension evaluation that underpins that $37 million?

MR. CHHELAVDA: That is correct, yes.

MR. SIDLOFSKY: Okay. If I could take you to page 9 of the compendium. That's an excerpt from the Pension Benefits Act, specifically from Regulation 909, and this summarizes what the statutory contribution requirements are for defined benefit pension plans; can you confirm that?

MR. CHHELAVDA: This is the first time I am seeing this particular excerpt, but it looks to be from the Pension Benefits Act, and I -- I haven't fully read this, but if you state that this is what it is, I will take you at your word.

MR. SIDLOFSKY: Okay.

MR. VEGH: We'll see how far Mr. Sidlofsky wants to go with this particular point, but, you know, the Panel's not lawyers and the witnesses are not lawyers, and to ask them to provide a legal analysis of legislation and regulations that they haven't seen yet I don't think is going to be very fruitful.

MR. SIDLOFSKY: Perhaps I could ask my questions and then Mr. Vegh can decide, but I can tell you I'm not asking for the Panel -- for a statutory interpretation here.

Now, your understanding is that at a minimum you're required to make annual contributions toward normal actuarial costs and addition special payments that may be required if the pension fund is in a deficit; is that correct?

MR. CHHELAVDA: That is correct, yes.

MR. SIDLOFSKY: And just to clarify, normal actuarial costs refers to the costs associated with the benefits that were earned by employees during a particular year; is that right?

MR. CHHELAVDA: It's correct, yes, my understanding.

MR. SIDLOFSKY: I'm going to take you to pages 10 and 11 of the compendium. We can start with page 1o.

Now, in your actuarial -- sorry, in your actuarial valuation -- and this comes from Exhibit C1, tab 2, schedule 2, attachment 1, section 3 -- that section of the valuation provides the minimum employer contribution requirement and the maximum employer contribution for the period covered by the valuation; correct?

MR. CHHELAVDA: Yes, it does.

MR. SIDLOFSKY: Okay. So my understanding of those amounts is that the minimum contribution represents the amount that Hydro One must contribute to the plan in order to satisfy its statutory obligation to the plan for the year.

In other words, it's the amount that Hydro One needs to contribute by law based on the Pension Benefits Act in order to ensure that the pension plan is and will be adequately funded.

MR. CHHELAVDA: That is correct.

MR. SIDLOFSKY: And my understanding is that the maximum contribution limit is discretionary, so that Hydro One may make additional contributions to the plan, but there is no requirement to do that. Have I got that right?

MR. CHHELAVDA: So my understanding is it's similar, it is discretionary, but there are -- I think there are limits imposed on -- by the Income Tax Act that would cap the maximum amount of contributions that you could make --

MR. SIDLOFSKY: Okay.

MR. CHHELAVDA: -- and still get the deduction.

MR. SIDLOFSKY: So if we stay on page -- sorry, if we stay on page 10 we see the estimated minimum employer contribution for 2017, '18, and '19 as zero.

MR. CHHELAVDA: I see that, yes.

MR. SIDLOFSKY: Now, you don't have the calculations for subsequent years of the test period because there will have to be another -- another actuarial report that's prepared for that, correct?

MR. CHHELAVDA: That is correct.

MR. SIDLOFSKY: Okay. But at this point there is no minimum employer contribution required.

MR. CHHELAVDA: According to -- yes, according to this section, yes, the estimated minimum employer contributions is zero for '17, '18, '19.

MR. SIDLOFSKY: Now, why is -- can you explain just in general terms why the minimum contribution is zero for those years?

MR. CHHELAVDA: So this valuation is done on a going-concern basis and the pension plan is in a surplus position, so it has -- at the point in time it has, based on the valuation methodology, it has more -- or it has sufficient assets to cover the cost, so -- or it's in a surplus position, has more assets than the liabilities, so you would have -- that's why it would estimate the minimum contribution as being zero.

That being said, there are some challenges with this, so there are new pension rules that have come out in 2018, I believe, in the month of May -- April, May, which changes the funding ratio, so this may be true for, we think, for '18, but we're not sure if it holds beyond that, and the new rules, what they do is, the pension plan has to be in a stronger financial position to be able to take a contribution holiday, so this may not be applicable for the full test period, and it may not even be applicable for 2018.

MR. SIDLOFSKY: Well, as you've done the calculation so far, it looks to me from the table on page 10 that the reason you have no -- no -- sorry, no estimated minimum contributions for the three-year period is because you are applying surplus money.

MR. CHHELAVDA: That is correct.

MR. SIDLOFSKY: And if I look at page 12 of the compendium, and we just scroll down a bit to the highlighted line, your actuarial surplus right now -- sorry, as of December 31st 2016 is close to $434 million.

MR. CHHELAVDA: That is correct, yes.

MR. SIDLOFSKY: So at around $70 million a year, you've got more than enough surplus funds to cover those pension costs for the entire five-year term of the application.

MR. CHHELAVDA: So this is a point-in-time calculation, so things can change. If -- you know, if there's a shock to the stock market, if there is a change in discount rates, this surplus may change, so again, it is a point in time, so based on that point in time, yes, there is sufficient surplus to cover the cost for the three years, but again, as I mentioned, it is subject to change.

MR. SIDLOFSKY: Well, I guess a couple of questions about that. First of all, even if there is a bit of a change, I mean, right now we are looking at applying about $70 million a year out of the surplus, and over the five-year period that would be 350 million; you are still about $80 million above that.

So even if -- even if the actuarial costs were to increase to 80- or $85 million a year, you still have money in your surplus to cover that, correct?

MR. CHHELAVDA: At this point-in-time calculation that would be correct.

MR. SIDLOFSKY: So at this point we agree that the pension fund has more money than it needs in terms of employer contributions, correct?

MR. CHHELAVDA: Based on this point-in-time calculation the pension plan is in a surplus position.

MR. SIDLOFSKY: And your actuary -- sorry, did I interrupt you, or --

MR. CHHELAVDA: One thing I want to add is, there are estimated member contributions, and if you recall earlier in the day, I did mention that Hydro One does not have -- the way our union contracts are written, Hydro -- the employer contributions cannot be less than the employee contribution, so given those set of constraints that we have, I -- my view is I do not believe Hydro One could take a full funding holiday. You would still have to contribute equal to the employees' contribution.

MR. SIDLOFSKY: So your actuarial report says that your minimum funding requirement is zero, and you're proposing to continue collecting $37 million a year because you have to match your employee contributions or -- I mean, explain to me again why you've decided on the $37 million a year.

MR. CHHELAVDA: So it is the employer normal cost, which it would be the current year service cost, so this is a cost that is incurred in the year that the employees provide service.

In our mind it is the prudent thing to do because in the event that you take a funding holiday you potentially run the risk, based on a lot of factors, fund performance, macroeconomic conditions, that you may have an adverse event that occurs, and then you may be subject to special payments or a going-concern payment, so you have to look -- when you are looking at funding requirements I believe -- my view is that you have to look at -- it's not a one- or two-year view; you have to get a longer-term view. And are you potentially taking a funding holiday today and tomorrow and kicking the can down the road, five, ten years -- just my view.

MR. SIDLOFSKY: But at 37 million dollars a year, based on your point in time analysis that you were -- that you filed, you will be collecting another close to $200 million that you don't need to fund your pension.

MR. CHHELAVDA: If I can draw your attention to perhaps -- I think it was a year or two ago, the pension plan was in a position where it had to make special payments and going concern payments.

So in the span of one or two years, things have shifted very rapidly. It could happen again, so it just supports my position that -- you know, it's a point in time calculation and they can change rapidly, which is clearly evidence are evident by the fact that two years ago, we were making special payments and going concern payments.

MR. SIDLOFSKY: If circumstances change rapidly and you had to make special payments, how would you recover those?

MR. CHHELAVDA: Those special payments would be recovered. We would make an application in -- well, the typical process is you'd have valuation, then you would make a -- you would actually make those contributions. Right now, we have a pension variance account, so the cost would be parked there to be disposed of at a future point in time.

MR. SIDLOFSKY: And I believe you took that approach in the transmission case, didn't you, where you recovered some special payments that had been made previously?

MR. CHHELAVDA: It's very possible.

MR. SIDLOFSKY: So the sense I have is that you're asking current ratepayers to fund the possibility of a change in the market in the future. Is that right?

MR. CHHELAVDA: No, we're asking ratepayers to fund the current service costs of the pension plan.

MR. SIDLOFSKY: But haven't ratepayers already funded that by giving you an additional $434 million?

MR. CHHELAVDA: So the surplus is -- the surplus is a function of a lot of inputs in terms of, you know, investment gains and mortality assumptions. So it is -- I wouldn't characterize it that as, you know, ratepayers have given the pension plan $433 million. That is a function of the pension plan being managed well, certain assumptions changing, the uptick in interest rates and how the market is performing.

So to say that ratepayers have funded or given the pension plan $433 million is, I think, an incorrect characterization, in my view.

MR. SIDLOFSKY: You mentioned an uptick in interest Rates. Rates are continuing to rise, correct?

MR. CHHELAVDA: In the U.S., as of yesterday, I believe, the fed has increased rates.

I believe the Bank of Canada has, at its last -- or a couple of months ago, had increased it, and the European

Central Bank has held them flat, so it is kind of a mixed bag. But holistically, I do think they are trending upwards.

MR. SIDLOFSKY: And to the extent they do trend upwards, that effects the balance of the surplus? It increases the balance in the surplus?

MR. CHHELAVDA: Yes, but it will also increase the liability, the pension liability.

MR. SIDLOFSKY: Sorry, how would it increase the pension liability? Is there a simple answer to that or...

MR. CHHELAVDA: Well, again, I am not an actuary, but you have a pension liability that you use a discount rate to determine what the eventual liability will be that you'll have to pay out. So if interest rates go up -- do I have this right? If interest rates go up, I believe your liability will increase.

MR. SIDLOFSKY: Are you sure about that?

MR. CHHELAVDA: Yes, I'm sure.

MR. SIDLOFSKY: So as the discount rate goes up, the pension liability will increase?

MR. CHHELAVDA: Sorry, I think I have it inversed. Let me take that subject to check. I'll -- I will confirm that.

MR. SIDLOFSKY: I suppose just to keep track of it, can you give me an undertaking on that?

MR. CHHELAVDA: I will, yes.

MR. SIDLOFSKY: Thanks. When you come in -- I'm sorry, yes, I forgot I had to do that, too. I will give it a number, Undertaking J4.3. Apparently I have to do everything here today.

UNDERTAKING NO. J4.3: TO CONFIRM WHETHER, AS THE DISCOUNT RATE GOES UP, PENSION LIABILITY WILL INCREASE

MR. SIDLOFSKY: So just going back to my question from a moment ago, if you find yourself having to make special payments, you've got a variance account that addresses this and eventually you will come to the Board to clear the balance in that variance account and recover that special payment that you made?

MR. CHHELAVDA: We will come to the Board and I believe the clearance of variance accounts would involve some level of prudence. But yes, we would come to the Board to clear the balance in the variance accounts, yes.

MR. SIDLOFSKY: So it seems to me that -- and I'll ask you if you agree with this. It seems to me that ratepayers are funding -- they're obviously funding your pension costs, but they're funding your surplus, but they're also funding your special payments when you need to come in because you -- because you are a deficit position.

Is there any point at which ratepayers actually get some of that money back?

And let me put it a different way. Right now at close to $40 million a year -- I'm rounding, I'm not trying to make it sound like a larger number -- or I'll say at $37 million a year. But you are asking ratepayers to continue contributing to your pension costs when you can cover those costs for the next five years.

If for some reason, there's a completely unanticipated change in the market, you will be back at the Board looking to recover that special payment.

So can you explain why ratepayers shouldn't get relief now, given that you are in a surplus position, seeing that you will be back in the Board anyway if you need money from them.

MR. VEGH: Just for clarification, before the witness answers, the question included in its preamble that ratepayers are -- that the pension can cover its cost for the next five years. I'm not sure that the witness agreed to that proposition, that the next five years have some uncertainty about -- with respect to these costs being recovered.

So maybe you can ask the question in a -- that has less premises built into it.

MR. SIDLOFSKY: Sure. By your snapshot here, you have a surplus that will cover the pension liability for the next five years. We've agreed on that, based on this snapshot.

MR. CHHELAVDA: So if all things remain equal and there is no changes in the marketplace, I could see that conclusion having some merit.

MR. SIDLOFSKY: And going back to my earlier questions as well, you've even got a bit of a buffer there if your liability increased to 80 or 85 million dollars. Again, all other things being equal, you appear to have enough to cover that pension liability for five years and then some.

MR. CHHELAVDA: If all things being equal, I could -- I see that line of reasoning. I think I can get that.

MR. SIDLOFSKY: If there is a downturn, then you will be back at the Board because you will have to make a special payment and you will have to clear that, or you will be seeking to clear that variance account, correct?

MR. CHHELAVDA: That is correct.

MR. SIDLOFSKY: So if you -- to put it differently, if you flip to a position where you are in a deficit, you will act to make the company whole by coming to the Board and seeking the disposition of that balance.

MR. CHHELAVDA: We would.

MR. SIDLOFSKY: And just to be clear, special payments are required when you are a deficit position, is that right?

MR. CHHELAVDA: I'm sorry?

MR. SIDLOFSKY: A special payment would be required when you are in a deficit position.

MR. CHHELAVDA: Yes.

MR. SIDLOFSKY: You've raised the possibility of a downturn in the market, but is it just as possible that you won't find yourself in a deficit again?

MR. CHHELAVDA: I mean, that's asking me to speculate. I can't answer that. I mean, if I listen to the news these days, I mean, I would say a downturn is probably more likely than not, just based on what I'm -- when you look at potential global trade war, so I can't answer that question, but anything could happen.

MR. SIDLOFSKY: Okay, I think those are my questions in that area. Thank you. I have one more area on productivity and compensation.

Could I take you to page 15 of the Staff compendium, please. On page 15 we've reproduced your response to Staff Interrogatory 73, which is Exhibit I, tab 8, schedule Staff 73.

In that interrogatory -- and I'll apologize. There is a bit of a preamble to this question, but in that interrogatory, Staff noted that Hydro One had described its labour optimization program as being "planned to optimize the number of highly skilled regular work staff to the level required to complete core work programs", and in part (c) and (d) of this interrogatory, Staff asked to what extent labour optimization would be expected to impact recovery times from a potential major weather event with significant forestry effort requirements, and the steps Hydro One is taking to manage impacts to recovery times.

You made a number of assertions in response. First, there would be no negative impacts on recovery times because you continue to be mindful of the need to meet recovery times, and you were committed to improving current response times and reliability statistics.

Second, to ensure no negative impacts Hydro One was looking for operational enhancements in crew alignment in resourcing structure and technology and grid modernization.

And thirdly, Hydro One stated that prior to operationalizing these enhancements it's committing --

sorry, it is completing detailed assessments, including pilots with localized implementation to ensure positive results and that, once proven, Hydro One would look to implement them through its business and -- throughout its business and arrive at positive results.

I'm wondering how you could know at this point that there would be no negative impacts on recovery times when you are still completing assessments of your operational enhancements that are intended to ensure that there is no negative impact on recovery times.

MR. MCDONELL: Well, I think a lot of the answers to your question will probably have to go to panel 5 for discussion. I think that's the sort of the level of detail. I actually answered (a) and (b). I didn't answer (c) and (d).

But I guess at a high level that I would say that, you know, Hydro One is really known to be in the storm recovery business. We have a well-oiled machine in that area. And that was sort of the response we are trying to get, because earlier I think the question was really about the high skilled workforce that we have, and it seemed to us it was sort of a -- reading between the lines there was a concern that we didn't have enough highly skilled employees and that was going to impact on recovery times, but I think probably your direct question probably would be better suited for panel 5.

MR. SIDLOFSKY: Does that mean I have to give that whole preamble again too?

MR. MCDONELL: I'm afraid so.

MR. QUESNELLE: You will be able to read it next time.

MR. SIDLOFSKY: I'll deal with that with panel 5. Thanks.

Could I take you to table 17 of the compendium, and these questions refer to OEB Staff Interrogatory No. 204, Exhibit I, tab 40, schedule Staff 204. In that interrogatory Staff asked Hydro One whether it considered its 2017 ratio of casual employees of around 33 percent to be optimal. And your response was that Hydro One considered that ratio to be an effective use of resources.

Does that response mean that the ratio is optimal?

MR. MCDONELL: I think the response to that was referring to the ratio of hiring hall staff. Casual employees can either be hiring hall or they could be casual construction, and through management experience over the number of years for which we've had the hiring hall, it is felt that roughly a third of our trades workforce being hiring hall is, in fact, optimal.

The hiring hall is, to some degree, scalable. It is not there to replace their regular workforce, so there are some collective-agreement requirements that we have in terms of using the hiring hall. It is more to supplement the maintenance of our regular workforce.

MR. SIDLOFSKY: So is it fair to say that you don't -- you are not really wedded to a particular ratio? It's --

MR. McDONELL: We are not wedded to a particular ratio, but just over the years for which we have been using the hiring hall, that seems to have been the sweet spot that we have found.

MR. SIDLOFSKY: And do you expect Hydro One's labour optimization program to have any impact on that ratio of casual employees? Do you -- sorry, just to add to that: Do you think the sweet spot will shift at all or...

MR. MCDONELL: I think that might be a better panel 5 question.

MR. SIDLOFSKY: Okay. Could we go to page 18 of the compendium. And this -- these questions deal with Staff Interrogatory number 205, Exhibit I, tab 40, schedule Staff 205.

Board Staff had asked whether Hydro One had conducted a staffing study to compare its staffing levels to other distributors and to determine the optimal staffing level for its operations, and your response was that you hadn't conducted such a study because the regular and total FTE count had been declining over the 2017 to '22 period, and as such it hadn't been a priority for Hydro One to conduct what you characterized as a broad and likely expensive staffing study.

A few questions about that: Why does the fact that your FTE count has been declining suggest that a study isn't necessary?

MR. MCDONELL: I guess it just is making reference to, in terms of priority issues, we didn't think that is a high priority. I mean, we obviously do a lot of benchmarking studies; we have seven benchmarking studies on the file with respect to compensation, which tends to be a priority issue with the Board. Since our FTE numbers are going down over the year, I think we are addressing that concern about head count and FTE.

Studies are expensive. They take a lot of resources, both financial plus internal resources, to complete them, and so from a priority point of view we've been benchmarking all these studies.

MR. SIDLOFSKY: So you are not suggesting that the FTE level you are currently at is necessarily optimal; it's simply a fact that it's been -- that it has been declining over the -- or it's also forecast to be declining over the 2017 -- 2017 to '22 period; is that right?

MR. MCDONELL: I would agree with that, and we -- and we just simply haven't benchmarked it against other utilities, but that's true.

MR. SIDLOFSKY: If your staffing levels had been flat or increasing would you feel that a study like that would have been more warranted at this time or...

[Witness panel confers]

MR. MCDONELL: Yeah, sure. Can you ask your question again?

MR. SIDLOFSKY: Yes, if your staffing levels had been flat or increasing, would a staffing study have been more warranted under those circumstances?

MR. MCDONELL: I think that's kind of a difficult question to answer. I think you also have to take a look at the overall work program. Our work program has been increasing, but yet our head count/FTE numbers are flat to decline a little bit, so again, going to the priority nature of having such a study, we didn't think it is a priority at this time.

MR. SIDLOFSKY: Can you think offhand of any circumstances where you would definitely initiate a study like that?

MR. MCDONELL: Offhand, maybe in a hypothetical, I can speak to my business a little bit. I mean, within the human resources group, we are looking to make some significant changes in terms of how we partner with our businesses. So I guess it wouldn't be out of the realm of possibility that we might want to do -- you know, we could do an FTE view of human resource professionals to numbers of employees.

So I think, you know, depending on the classification, I think there could be an area for which we could do some studies. But again, it just really hasn't been a priority for us.

MR. SIDLOFSKY: Okay. If we could go to page 19 of the compendium, I have a couple of questions about Staff Interrogatory No. 206, and that's Exhibit I, tab 40, schedule Staff 206.

Staff noted that at schedule -- excuse me, Exhibit C1, tab 2, schedule 1, at pages 11 to 13 of your evidence, Hydro One had summarized efforts underway to manage the total FTE complement and increase efficiency. And Staff had asked Hydro One to provide estimated savings for each initiative for the 2018 test year and future years under the various categories shown in that interrogatory.

Your response was that the evidence in -- excuse me, the evidence referenced in the interrogatory described the strategies and process changes you're employing to gain efficiencies in order to executed an increasing work plan with a relatively stable FTE complement, and that the strategies described in each of the work programs have been not been quantified as savings by Hydro One.

Here are my questions. Did Hydro One undertake any cost-benefit analysis when developing each of those initiatives?

MR. MCDONELL: I'm not really sure I can answer that question. I hate to be punting everything, but I think that because those are specific examples from different lines of businesses, I'd think that would be more of a panel 5 question.

MR. SIDLOFSKY: A panel 5 question?

MR. MCDONELL: I'm afraid so.

MR. SIDLOFSKY: That being the case, let's go to page 23 of the compendium.

MR. MCDONELL: This will not be a panel 5 punt.

MR. SIDLOFSKY: Thank you. I haven't asked the question yet.

This question relates to Staff Interrogatory No. 207, Exhibit I, tab 40, schedule Staff 207.

Staff noted that Hydro One had indicated both that the base salary increases for the test period were 2 percent for MCP Staff, 1 percent for PWU, and .5 percent for Society staff, while over the test period, total compensation for the distribution business increases by 2.5 percent.

Can you confirm, first of all, that the test period is 2018 to '22 for each of those percentages?

MR. MCDONELL: Yes, I believe it's 2017 to '22 is how we did that calculation for the 2.5 percent increase.

MR. SIDLOFSKY: I'm assuming those are annual increases for each of the years. Or were they average annual increases?

MR. MCDONELL: Those are actual -- that's the actual forecast increase for every year, yes.

MR. JODOIN: Sorry, I just want to clarify. When you asked that question, were you referring to the 2 percent, 1 percent and 0.5 percent? Or were you referring to the 2.5 percent total, just on your last point?

MR. SIDLOFSKY: Yes, that would have been the 2 percent, 1 percent, and 0.5 percent because those are the more specific percentages, right?

MR. MCDONELL: Every year. So the 2.5 percent, just for clarity, is the distribution compensation between 2017 and 2022.

MR. SIDLOFSKY: That's the annual increase of...

MR. MCDONELL: Not the annual increase. That is the percent increase, if you compare the compensation 2022 versus 2017.

MR. SIDLOFSKY: Okay.

MR. JODOIN: So essentially, if you were to refer or use the attachment 6 that we've referred to a few times over the last couple of days in the compensation evidence, and take total distribution compensation in 2022 and compare it to 2017, the 2.5 percent is the result.

MR. SIDLOFSKY: That might answer my question. Your response to the IR was that there are other compensation elements, in addition to base salary, that are included in total compensation. And you provided a table that broke down those components included in total distribution compensation of 2.5 percent. That's what that table represent, correct?

MR. JODOIN: Yes.

MR. MCDONELL: Yes, that's correct.

MR. SIDLOFSKY: Sorry, was that...

MR. MCDONELL: Yes, that's correct.

MR. SIDLOFSKY: One of the things that Staff had asked you for was a reconciliation of the component numbers that were cited in the overall 2.5 percent. Is there any reconciliation of that?

[Witness panel confers]

MR. JODOIN: Maybe I can help bridge, and I think -- I think the difference here is the 2.5 percent is comparing a total compensation for the distribution business, which included in that would be FTE fluctuations. So the 1 percent, 0.5 percent, and 2 percent annual escalations would be embedded in the base pay row.

However, what would also be embedded in that base pay row is any FTE fluctuations throughout in that same horizon.

So you wouldn't be able to do a direct reconciliation with this interrogatory. However, potentially if you could just describe what you are looking for again, maybe we could present some math that makes a little more sense.

MR. SIDLOFSKY: Well, I think I'm trying to understand how the 2.5 percent relates to the more specific increases you -- sorry, the more specific increases for each category of employee.

MR. JODOIN: Sure.

MR. SIDLOFSKY: Now, what you said is that the 2.5 percent reflects total compensation. So an individual employee may -- their compensation may increase by, let's say, management staff, 2 percent -- their compensation may increase by 2 percent. But if I have fewer management staff, then that's going to affect that 2.5 percent increase over the entire test period.

MR. JODOIN: You are a hundred percent correct in how you've categorized it. So there's sort of two issues at play, I guess, in the calculation of the 2.5.

So maybe it is easiest just to focus on the 1.3, since these are the elements we're talking about, and that's the base pay 1.3 percent increase.

Again, that's calculated using the 2017 benchmark year and the 2022 end of -- what we can call end-of-term compensation year filed in attachment 6, which would have a fluctuating FTE.

So what I can confirm is that the annual base salary increases included in the question is embedded within that calculation. Unfortunately, with the data specifically in this IR, we can't do an exact bridge that will get you, I guess, to a point mathematically right here.

MR. SIDLOFSKY: It is really because those numbers reflect two different things, don't they?

MR. JODOIN: Exactly. That's right.

MR. SIDLOFSKY: So...

MR. JODOIN: Although, and I will confirm again, they represent two different things. But the annual rate increases that have been outlined in the question are used in the 2.5 percent calculation.

So they are used as an input. But, as you say, there are other inputs that would fluctuate the analysis.

I hope that makes sense. I know it's a bit...

MR. SIDLOFSKY: It does make sense to me. I am going to try to spit something back to you, to make sure I understand it.

In order to come up with the two and a half percent, I would have to consider those base salary increases like the 1.3 percent, all of those other factors that are in the table in your response to the interrogatory, and then I would have to consider your forecasted changes in FTEs through the test period.

MR. JODOIN: That's correct.

MR. SIDLOFSKY: Okay. Is there any math that does that work for me?

MR. JODOIN: If you could just bear with us for one second while we review attachment 6, and then we'll let you know what's available.

Unfortunately I believe all of the analysis within attachment 6 embeds changing FTEs, as well as changing inputs into the compensation at base pay into one analysis, so we don't have it readily available. That said, we have the data to provide such an analysis if that's something you are looking for.

MR. SIDLOFSKY: You are able to provide that?

MR. JODOIN: If that's something that you would like, we would could provide that.

MR. SIDLOFSKY: We would like that.

MR. JODOIN: Not a problem.

MR. SIDLOFSKY: Undertaking J4.4.

UNDERTAKING NO. J4.4: TO PROVIDE THE CALCULATIONS FOR FORECASTED CHANGES IN FTES AND FTE COMPENSATION THROUGH THE TEST PERIOD.

MR. SIDLOFSKY: I'll take you to page 24 of the Staff compendium. And these questions relate to Staff Interrogatory No.208, Exhibit I, tab 40, schedule Staff 208. In that interrogatory Staff noted that Hydro One had indicated in addressing the Mercer study results that the study does not account for the impact of Hydro One's negotiated cost saving initiatives such as future pension benefit reductions or the updated pension valuation filed with the OEB.

Staff asked how significant those factors were to the total results of the study and when Hydro One planned to conduct another Mercer study. Your response indicated that the plan changes to pension plans for PWU and legacy Society employees hadn't been reflected in the Mercer study, but at a high level you anticipated that they would reduce the employer-provided value of those plans to about 95 percent of the current employer-provided value, assuming other assumptions remain the same, and you also said that you plan to file numerous or total compensation study as part of your upcoming transmission rate filing later this year.

First of all, was the new Mercer study referenced in this response, the one filed by Hydro One in the current proceeding on April 20th?

MR. MCDONELL: That is correct.

MR. SIDLOFSKY: Okay. And does that include the plan changes and their impact?

MR. MCDONELL: No, I don't believe it did, and I think Mr. Morris dealt with that yesterday, because that is a future savings in 2025. It wasn't -- the study that Mercer did for us was at a point in time, so those future savings were not -- they weren't part of the 2017 Mercer study.

MR. SIDLOFSKY: Okay. So you still don't have a forward-looking study that would address those savings?

MR. MCDONELL: That's correct.

MR. SIDLOFSKY: Okay. And when are you planning to implement those changes?

MR. MCDONELL: 2025.

MR. SIDLOFSKY: Okay. So I take it then that they are not reflected -- those changes aren't reflected in the current application at all, because it is outside of the test period.

MR. MCDONELL: That's correct.

MR. SIDLOFSKY: Page 25 of the compendium is an extract that we've seen before, and I apologize for it being a little bit fuzzy, but I have a few questions about the updated Mercer compensation study. And those summarized findings are presented in table 1. Sorry, that's table 4 on the compendium page.

In reading that table, the overall 2017 number of 1.12 implies that in 2017 Hydro One's total compensation is 12 percent above market median.

MR. MORRIS: That's correct.

MR. SIDLOFSKY: And we've had discussions about this before, and I'll try not to repeat those, but I'm wondering about a couple of trends that are in this table. You've dropped from 17 percent above market median in 2008 to 10 percent above in 2013.

What were the major factors there in that decline?

MR. MORRIS: I guess the major factors are going to be the reduction in Hydro One's total award for the benchmark jobs in comparison to the median in the marketplace. So there could be salary increases, increasing at a lower rate. It could be actions taken to reduce, you know, benefits, costs, potentially, although I don't think that was a major one, so -- and it's also potentially changes in the sample itself, which is a -- can be another factor as well.

MR. SIDLOFSKY: Okay, and I'll -- I've got a question about changes in the sample that I'll get to in just a couple of minutes, but -- and then it was back up to 14 percent in the 2013 to '16 period.

Now, you mentioned yesterday that -- you just made a comment that -- I think you made a comment that it was the result of the 2015 bargaining process; is that right?

MR. MORRIS: In part, but also, it's the outcome of that in comparison to an external marketplace, so these -- all these numbers presented show a ratio to an external marketplace. It doesn't necessarily show that Hydro One's costs in and of themselves have gone down. They've gone down relative to an external benchmark.

MR. SIDLOFSKY: So changes -- trends in this table might reflect actions that Hydro One has taken; they may also reflect actions external to Hydro One in the marketplace?

MR. MORRIS: They would reflect both.

MR. SIDLOFSKY: Okay, between 2016 and 2017, you dropped from 14 above median to 12 -- sorry, 14 percent above median to 12 percent above median. Do you see that reduction as being sustainable?

MR. MORRIS: I believe that it is sustainable. There are, just based on what we know about upcoming actions, potentially, you know, the pension plan changes. Again, if we were to repeat the study and samples changed, it is not necessarily a certainty. I did a quick analysis that looked at the trend overall. The trend, despite the higher numbers in 2016, is still down, but -- is still downward, but that's just a statistical analysis. What we see would suggest that it is likely sustainable. But that's an opinion.

MR. SIDLOFSKY: What's -- so what factors do you see as being different now compared to the 2013 to 2016 period?

MR. MORRIS: The agreement that's in place limits Hydro One's base wage increases on an annual basis. There is -- they shifted -- I guess I don't know the exact policy decision behind it, but there is a -- a share benefit that is a flat 2.7 percent of pay, which increases at a lower rate than having that compounded as a higher rate increase. There have been efforts to limit an increase in employee contributions to the pension plan, which should bring it more in alignment with what we would see in the potential -- a trend in the marketplace. There are still a number of organizations with defined benefit plans which are valuable, where there are no employee contributions.

So those actions, I think, taken together would suggest to me that on a go-forward basis, Hydro One should be in a reasonably good position compared to what's happening in this particular comparator market.

MR. SIDLOFSKY: Now, it's clearly your suggestion that moving from 14 percent above median to 12 percent above median is an improvement for the company from 2016 to 2017, correct?

MR. MORRIS: It's certainly an improvement. There are two snapshots in time. There are two datasets and two analyses that reach that conclusion, frankly. So based on the information that we used in our analysis for the benchmarked jobs, for the design of Hydro One programs, and applying a consistent analysis and industry standard practice, we've concluded that relative to the market median, the number is lower.

Now, if we were to say in the judgment around competitiveness that organizations exercise plus and minus 5 percent in judgment, the outcomes would overlap, if you were to cast those ranges. But the hard numbers themselves did diminish.

MR. SIDLOFSKY: Thank you for that. I just want to follow up something that came up in Ms. Durant's cross-examination of the panel yesterday on behalf of CME.

In the executive summary to the 2017 study, and that was at page 56 of the CME compendium -- I am wondering if you would be able to bring up the compendium?

I can read you the paragraph. It's not very long, but I will probably read it to you anyway.

The paragraph I'm going to be asking you about is in the middle of the page on that first page of the executive summary, and it says that:

"Since 2008, the compensation cost benchmarking study has included regulated transmission and distribution utilities and comparable regulated businesses across Canada. However, to reflect the changing talent landscape and nature of the workforce, the comparator group and job list for the 2016 study was reviewed with the purpose of rebalancing the mix of transmission, distribution and functional benchmark jobs, and to better represent the market in which Hydro One attracts and loses talent to (e.g. contractors). This resulted in revisions to the comparator organizations and survey jobs included in the study."

And Mercer goes on to say that:

"While these changes may have an impact on the study over study comparison, Mercer believes they better reflect the current workforce and balance of jobs at Hydro One."

My question is simply: If the comparator group has changed, does that -- or could it have an impact on the variations from market median that you are showing in the table that summarizes the summary results?

MR. MORRIS: Yes, it does.

MR. SIDLOFSKY: So when I look at a move from 14 percent over median to 12 percent over median, that may be because Hydro One has become more effective in negotiating its contracts with its employees, establishing benefits. But it may also be because the sample pool has changed, is that right?

MR. MORRIS: It's a combination of both.

MR. SIDLOFSKY: Is there any way of distinguishing those factors?

MR. MORRIS: It is extremely difficult to do that.

There have been some earlier suggestions around looking at common organizations, selecting those that were in both studies, and calculating an outcome, and then looking at organizations that were added to it.

Effectively, that creates two new peer groups. I mean, it's two different studies again and it's very, very difficult to isolate what's actually happened.

The other concern we have is that if we reduce the number of peers in the peer group, number of companies in the sample, we are concerned about the amount of data for some key roles. So it's very difficult to isolate the effects.

MR. SIDLOFSKY: So when I asked you before if you thought this was a sustainable situation where you were declining from 14 percent to 12 percent over median, it's not clear that that's a -- that that's a downward trend, is it?

MR. MORRIS: It's -- well, statistically, it is a downward trend. We understand that the underlying peer groups have changed. My comments were, in part, driven by my understanding of the most current study and the program in place at Hydro One in terms of sustainability.

MR. SIDLOFSKY: But if you were to move forward with the employee pool, or the sample pool that you've used in the 2017 study, it's not clear that you would continue to see a 2 percent reduction -- or -- yes, sorry, 2 percent reductions compared to the median?

MR. MORRIS: Another 2 percent?

MR. SIDLOFSKY: Potentially. If you happen to have two years where you had consistent sample sets, which isn't the case between 2016 and 2017 --

MR. MORRIS: Correct.

MR. SIDLOFSKY: -- there is really no way to tell what the 2018 or '19 result might be, once you are really comparing apples to apples in that employee pool.

MR. MORRIS: It's -- no, I wouldn't predict a downward trend with any given slope. I can't predict the future.

MR. SIDLOFSKY: Okay. I just have two more questions, panel. I know I'm a little bit over my time, but if I may.

Page 28 of the Staff compendium, that relates to Staff interrogatory S5 -- I'm sorry, could I just take you back to page 26 in Staff interrogatory S4?

In that interrogatory, Staff asked about the interpretation of the graphs on page 3 of the WTW study. And based on the response you gave there -- sorry, that's page 26 of the compendium.

MR. MCDONELL: Okay.

MR. SIDLOFSKY: Based and on the response there, is it correct to conclude that for both the Legacy band structure distribution and the current level -- structure distribution, the lowest level assistant position has zero incumbents in both cases?

MR. MCDONELL: That is correct, yes.

MR. SIDLOFSKY: Why is that the case?

MR. MCDONELL: It is very much of an entry level position. We've had that band structure since Hydro One came into existence. The level above it, the band 9 or the level 2, is just pretty much an entry level admin assistant and it suits our purposes, so we don't need a lower rated classification.

MR. SIDLOFSKY: Why is the position being maintained since you have no incumbents?

MR. MCDONELL: We just haven't taken the time to take that job off our rates schedule. There is no reason why.

MR. SIDLOFSKY: Okay. Now I'll take you to interrogatory S5. In part A of that interrogatory, Staff asked whether Willis Towers Watson believed Hydro One's programs, prior to the implementation of the programs discussed in the current WTW study, were sufficient to attract and retain talent, and what the basis of that conclusion was.

The response was that Willis Towers Watson wasn't familiar with the attraction and recruitment environment prior to 2015.

Is there some reason why Willis Towers Watson would not have familiarized itself in that environment?

MR. MCDONELL: I can't speak for Wills Towers Watson. I think they were in place working for Hydro One to give us advice and guidance for 2016 compensation changes. I don't know why they would not have looked back, but I really can't comment.

MR. SIDLOFSKY: Do you know if they were directed to?

MR. MCDONELL: No, I don't.

MR. SIDLOFSKY: Last question. At page 30 of the compendium, relating to Staff Interrogatory S6.

In that interrogatory Staff asked about the impact of 2018 proposed compensation structure changes, including changes to base salary structure, on costs on an annual basis and how those estimates were derived.

And your response was that changes to base salary structure have no financial impact. Why was that?

MR. McDONELL: Well, because in our forecasting we already forecasted a 2 percent non-represented increase. We ended up paying a 2.5 percent, so the shareholder is not paying for that .5 percent.

MR. SIDLOFSKY: Okay. Thank you.

Mr. Chair, those are my questions.

MR. QUESNELLE: Okay. Thank you, Mr. Sidlofsky.

Ms. Anderson has some questions.

Questions by the Board:

MS. ANDERSON: Yes, yesterday there were some questions around the corporate cost allocation to the acquired utilities. I think Mr. Jodoin is probably -- not -- it just twigged to me the question about what happened with Hydro One Brampton? So the last time you were in that would have been part of your family of companies, and -- last time you rebased, so was there a corporate cost allocation to Hydro One Brampton, and what happened to those costs now that you -- now that it has been sold?

MR. JODOIN: So I can confirm that there would have been an allocation to Hydro One Brampton. Much like today, we have an allocation to Hydro One Remotes or Hydro One Telecom.

In terms of what happened with those costs, if you could just bear with me for one second --

MS. ANDERSON: I guess the real question is did they just get reallocated out to the remaining companies or the remaining units?

MR. JODOIN: Agreed, for the most part it would have been a reallocation to other work duties within -- within Hydro One.

MS. ANDERSON: Okay, then keeping on the corporate cost allocation, so once you've done, I think it's the Black & Veatch study, once you've done the allocation to the units and some goes to Hydro One distribution, do we know in the evidence how much of that gets capitalized?

MR. JODOIN: Capitalization of the corporate costs?

MS. ANDERSON: Corporate costs.

MR. JODOIN: We do, and we have an overhead capitalization exhibit that my colleague is on, so we'll pull that up.

MS. ANDERSON: Thanks. And I guess I'm particularly interested, as you are calling it up, is, is it about 50 percent of it that gets capitalized like the other types of costs or is it a different approach.

MR. JODOIN: Our typical rules of thumb would imply it's about 50 percent. I'm not necessarily comfortable, as we do outline the specific dollars for each of the categories in the exhibit.

So we do document it in Exhibit D1, tab 3, schedule 1. And we have a table 1 on page 2, and what that table will outline are two categories, the first, what I would call more corporate-based costs, like finance or HR, and the second would be some capitalized costs for planning, customer and operating, and the reason why we do distinct (sic) the two is because the planning, customer, and operating through the Black & Veatch study capitalize costs through a time study, so these employees would actually conduct a time study, a review of their time, document it, and provide it to Black & Veatch, whereas the corporate-based groups are more based on driver-based allocations, so a high-level example could be the fixed asset team in accounting would be allocated based on the fixed asset spend, just high-level something like that.

So that would be the two categorical differences.

MS. ANDERSON: Okay, just so I'm clear, where you see capitalized administration and general cost, the corporate cost allocation is part of that, or is that it? I'm just trying to understand here.

MR. JODOIN: This right here represents the total amount that is capitalized.

MS. ANDERSON: Out of corporate -- the corporate cost allocation or just total for all of Hydro One distribution?

MR. JODOIN: Sorry, maybe I'm confused on the question.

MS. ANDERSON: So -- okay, so my question was: How much of the corporate cost allocation gets capitalized?

MR. JODOIN: Right.

MS. ANDERSON: Is this a table of just the corporate cost allocation?

MR. JODOIN: This is a table of the amounts that end up being capitalized by each of the two components that I described.

MS. ANDERSON: Okay, thank you.

Moving on to the request for deferral and variance accounts, and my notes -- hopefully I've got this right -- say that it was Exhibit F1, tab 3, schedule 1. And there was a list of the deferral and variance accounts you were requesting. And I think we've already covered off the pensions and the OPEB ones earlier today.

The OEB cost differential account, so we know that the OEB changed its allocation methodology and changed the assessment, the cost assessment, to Hydro One, and that, I think, reduced the assessment to Hydro One; is that correct?

MR. CHHELAVDA: If memory serves, I believe that's correct.

MS. ANDERSON: And that would be reflected in your OM&A, your current forecast OM&A, that reduced amount. So is there any other reason that you want this account, other than the fact that the OEB granted it? So we granted it because of this change. Is there some other reason, other than the fact that we made that change a couple years ago, that you wanted to have that account continue?

MR. CHHELAVDA: If you just bear with me for two seconds.

So my understanding is the request was made for -- it was tied back to the Board's letter dated February 9th to us, and in the event that there was going to be further changes in cost allocation and if we had a higher amount in rates, then the costs run over, that is why we suggested having this account.

MS. ANDERSON: And I recognize that you don't control all this; obviously it is the cost from the OEB. Did you have an account prior to this change in allocation that the OEB did? Did you have a --

MR. CHHELAVDA: I believe we had an account and then it was -- the request was made to discontinue it and then this letter -- with this letter, a request to re-establish the account --

MS. ANDERSON: Okay.

MR. CHHELAVDA: -- (inaudible) the history.

MS. ANDERSON: My other question relates to the LRAM VA account. And if this is a better question for Mr. Andre, let me know that, that's fine, but I'm trying to reconcile the request for a continued LRAM VA account with the fact that you are also requesting a revenue cap mechanism, because if a revenue cap is capping a revenue and if the LRAM VA is about holding you harmless for revenue decreases because of CDM, I guess I want to understand how that LRAM VA mechanism works in relationship to the revenue cap.

MR. CHHELAVDA: This is a question I think my colleague Mr. Andre would answer better than I can --

MS. ANDERSON: [Speaking over each other]... Mr. Andre, but at least maybe, Mr. Vegh, you can have him be prepared to answer that. Thank you. Those are my questions.

MR. QUESNELLE: Mr. Elsayed?

DR. ELSAYED: I just have one question about the benchmarking studies. As mentioned today and yesterday that you have done seven compensation-related benchmarking studies; is that correct?

MR. MCDONELL: Since 2015, yes, there are seven on the record, yes.

DR. ELSAYED: So my question is: You have described some of the initiatives that you have undertaken to deal with the findings of these, which are basically showing that your compensation is higher than the industry median.

Can you tell me what other initiatives you plan to undertake, if any, over the next five years or beyond to close this gap? And the second part of the question: If so, have you established any targets over that period, in terms of where you want to be five years from now, as far as that gap is concerned?

[Witness panel confers]

MR. MCDONELL: I guess one thing that I'm struggling with, and I think we -- I'm not sure if we talked about it last day or so, but we have just finished renewing our collective agreement with the PWU, and that is going to be ratified, I think it's June 27th. So we weren't and aren't in a position to really talk about any of the changes that are resulting from that collective agreement.

I mean, there are things in there that will help cap our compensation, so it's just unfortunate I can't really talk about that.

In terms of our MCP or non-represented compensation, we are continuing to increase pension contributions. We haven't made any decisions yet for 2018 and beyond, but certainly our past history shows that we are asking our non-represented employees to continue to pay more for their pensions.

We talked about the segmented markets that we have so that we can better -- so that we can better target our non-represented positions so when we go seek talent, we will have a more granular P50 to target. And when employees do come in, we're able to manage our salaries through our merit program.

So we will continue our efforts to be, you know, a performance paid organization for our non-represented employees.

Other than that, I don't know if I have anymore specifics for you.

DR. ELSAYED: Just my concern, I guess, is that it's one thing to be able to come and explain why your compensation is higher than the industry. But my question is around having a set approach to be able to come back at a certain time and say we have a target that by a certain date, we will come close or become at the industry median base.

I'm not asking you to give me the details about the collective agreement necessarily, or to quantify it. I am just saying that is it the approach of the company that at some point, you would have a plan, or at some point you would be able to achieve that consistency with the rest of the industry.

MR. MCDONELL: I guess my response to that -- and again, unfortunately, it has to be fairly general, and I think I made the comment yesterday that the corporation does understand the concerns about compensation.

We understand that the ratepayers are concerned about increasing compensation, and I think our past history of reducing compensation, constraining compensation where we had the flexibility. In the areas where we don't have so much flexibility with our represented staff, we have a track history of making reductions and there is no reason to feel not confident that we won't continue to do that in the future.

DR. ELSAYED: Thank you.

MR. MCDONELL: And maybe I just want to make one final point. In our forecast for the business plan, I think we are actually very conservative in terms of our forecast for our base wage adjustments, being 1 percent for PWU0, 2 percent for management, and .5 percent for Society.

So those are pretty conservative forecasts. So if we do negotiate more, the ratepayer won't be paying for more than that.

MR. QUESNELLE: Thank you. I don't have any questions. Mr. Vegh, do you have any questions for this panel?

RE-EXAMINATION BY MR. VEGH:

MR. VEGH: Thank you, sir, just one area.

I have a question for you, Mr. Chhelavda, and it has to do with your discussion in the transcript yesterday, if we could turn up page 187 of the transcript.

You had a discussion -- so starting down around line 17, you had a discussion with Mr. Rubenstein about the share grant program and I, at least, was left confused. So I went back to the transcript and I was still sort of confused about the issue of, you know, whether there are costs incurred under the shared grant program, and if so, who incurs those costs and how are they incurred.

So my question to you is: Is there a cost incurred for shares distributed under the share grant program and who incurs them -- and if so, who incurs those costs?

MR. CHHELAVDA: So I'll answer your question in two ways. There is a cost to administer the program, so those costs are borne by Hydro One. But the cost of the shares themselves, while there is no actual cash outlaid by Hydro One, it is an opportunity cost.

These are shares issued from treasury that, absent this grant, could have been issued to raise equity for other corporate purposes. So it is -- it's a foregone, or it is an opportunity cost where Hydro One is foregoing the potential to raise this equity for future use.

Does that answers question?

MR. VEGH: I think I understand how the costs were incurred. But maybe you could specify who would be incurring that cost? That opportunity cost?

MR. CHHELAVDA: It would be the organization. It would be Hydro One.

MR. VEGH: Thank you, those are all my questions.

MR. QUESNELLE: Thank you, Mr. Vegh.

I understand we have scheduling issues. There was an unfortunate circumstance at IPSOS' office today, and the IPSOS witnesses can't be here this afternoon, Mr. Vegh.

So as we're going into panel 3, I'm not sure -- I think, Mr. Davies, you've had some conversations with some of the intervenors, and I'm just trying to get a handle on what our afternoon is going to look like as to what we can accomplish and what the intentions are.

Do you have any comments as to what you would be offering up as witnesses?

MR. VEGH: So Hydro One's proposal would be to have the other witnesses available on this panel and the IPSOS participant would join the panel on Monday.

MR. QUESNELLE: On Monday? Okay. So let me just do a read through here. Mr. Buonaguro, you still plan on being up first after lunch, and you have questions for this afternoon?

MR. BUONAGURO: Yes. I have no questions for IPSOS in any event.

MR. QUESNELLE: You have no questions for IPSOS?
MR. BUONAGURO: Right.
MR. QUESNELLE: So you will be on this afternoon. I don't see Mr. Stephenson here. Ms. Djurdjevic?
MS. DJURDJEVIC: I have questions for both the panel and for IOSOS. If it would -- I think it would save time if I could go on Monday, but I am happy to ask some questions today. We will maybe see how everyone else plays out.
MR. QUESNELLE: Do you want to wait until the end today or...
MS. DJURJEVIC: Yes, and if I'm the only one that has questions for IPSOS, I'm happy to wait until Monday. I'm flexible.
MR. QUESNELLE: Okay. Mr. Segel-Brown?
MR. SEGEL-BROWN: I only have one question, so...
MR. QUESNELLE: For this afternoon?
MR. SEGEL-BROWN: I'm fine with the panel for this afternoon.
MR. QUESNELLE: Ms. Grice?
MS. GRICE: I have a couple of questions for Hydro One.
MR. QUESNELLE: Mr. McLeod?
MR. McLEOD: I have questions for Hydro One. There may be questions for IPSOS; I can't tell yet.
MR. QUESNELLE: Mr. Woon?
MR. WOON: We have questions for this panel this afternoon.

MR. QUESNELLE: Mr. Ladanyi?

MR. LADANYI: All my questions are for Hydro One.

MR. QUESNELLE: And Mr. Rubenstein?

MR. RUBENSTEIN: I maybe have a question or two.

MR. QUESNELLE: All right. So we'll keep the order going and Mr. Stephenson may be here after lunch. I think it will be a shortened afternoon, but that's -- I'm sorry.

And then on Monday, maybe I can read through the schedule. Ms. DeMarco, do you have questions for this afternoon?

MS. DeMARCO: Thank you, Mr. Chairman. No, we are scheduled to be up on Monday, and we'd like to keep it that way.

MR. QUESNELLE: All right. Ms. Girvan is not here.

MR. BUONAGURO: I was just going to say I actually saw correspondence suggesting that Mr. Stephenson does not have questions for this panel.

MR. QUESNELLE: Thank you, Mr. Buonaguro. And Mr. Sidlofsky?

MR. SIDLOFSKY: I believe our questions are for Hydro One.

MR. QUESNELLE: Okay, we're good. I just wanted to get a handle on what we were doing this afternoon. That's great. Let's recess until 2:10.

--- Lunch recess taken at 1:10 p.m.

--- On resuming at 2:16 p.m.

MR. QUESNELLE: Good afternoon, Mr. Nettleton.

MR. NETTLETON: Good afternoon, sir. The baton has been passed.

MR. QUESNELLE: It was pretty smooth. At least you did it at lunchtime so nobody could watch.

MR. NETTLETON: Thought we'd pull a fast one, but I guess not...

PRELIMINARY MATTERS:

Mr. Chairman, I have a couple of preliminary matters that I'd like to deal with if we could before our panel gets -- the next panel gets sworn.

MR. QUESNELLE: Certainly.

MR. NETTLETON: Sir, this morning there was a filing made electronically to one of the responses that Hydro One provided to an interrogatory asked of Anwaatin Inc., and that interrogatory has been marked as Exhibit I6.Anwaatin.1, and Hydro One has now provided an updated response to that interrogatory, in particular part C.

That question, sir, just by way of context, the original question asked was whether or not Hydro One had examined the use of distributed energy resources in First Nation communities, and the original answer was that it had not examined that initiative. The update now identifies more recent investigations and studies that Hydro One has been carrying out since the time that the interrogatory response was provided; in particular, the time period that was between April of this year and as recently as this week.

So we thought this material was important, and hence deserving of an update, and so we've now filed that. I don't think it needs a new exhibit, because I think it follows from the exhibit that was originally marked --

MR. QUESNELLE: Okay.

MR. NETTLETON: -- for the interrogatory, but I'm in your hands if you would care to have that marked as a separate exhibit, and I have extra copies of that.

MR. QUESNELLE: Why don't we do that just in case it requires a reference, and it will highlight that it's gotten its attention on the transcript as well.

MR. NETTLETON: Sure.

MR. SIDLOFSKY: That will be K4.3.

EXHIBIT NO. K4.3: UPDATED RESPONSE TO INTERROGATORY EXHIBIT I6.ANWAATIN.1

MR. NETTLETON: And I do have extra copies, which I will ask my colleague here to put at the back of the room.

MR. QUESNELLE: Okay.

MR. NETTLETON: My colleague, by the way, is Mr. Sam Rogers. He is with McCarthys, and he will be assisting me in the next few panels.

The second matter, sir, it follows in fact from the first, and I'm very pleased to report that a settlement proposal and agreement has been reached between Hydro One and Anwaatin in a matter that relates to the motion that Anwaatin had filed in respect of the transmission rates case. Exhibit -- sorry, EB-2016-0160 was the transmission case, as we know, and the motion was assigned EB-2017-0335.

This afternoon, Mr. Chairman and Panel members, Anwaatin and Hydro One have reached this agreement, and the intent is for that agreement to be filed in that 0335 proceeding.

I bring it to your attention, sir, because I believe it probably will be of interest to you and to parties in this proceeding because the subject matter of the settlement really is an initiative to commence a pilot project that is intended to examine energy storage facilities and the use of energy storage facilities in remote regions of Hydro One's system and, in particular, the communities that are related to and involving Anwaatin communities. That's where the pilot project will be focused on.

But it's also, and very importantly, about looking at repeatable opportunities to apply the learnings from that pilot project to other areas on the distribution system.

And so this settlement proposal describes the approach that Hydro One and Anwaatin are intending to carry out collaboratively and in working together to examine the technical and economic and commercial feasibility of this initiative, and so I think it does make sense to have it marked as an exhibit in this proceeding, and I would request that that happen, sir.

MR. QUESNELLE: I think that's acceptable. I think that the subject matter that you are bringing forward is of interest to this Panel and related to this hearing, so thank you for doing so.

MR. NETTLETON: The trouble is I'm not as fast as my younger colleagues, Mr. Rogers or others, and I only have two paper copies, but I'm sure over the course of the next couple of days -- or couple of minutes an electronic copy will suddenly appear in the WebDrawer of this proceeding, so I am happy to provide you with electronic -- or, sorry, two physical copies, if you would like that now, or you can wait for the magic of the Internet to work.

MR. QUESNELLE: I'll take one of them so we have one here, and --

MS. DeMARCO: Shall I offer my copy?

MR. QUESNELLE: And that'll be --

MR. SIDLOFSKY: That will be K4.4.

EXHIBIT NO. K4.4: SETTLEMENT PROPOSAL IN EB-2017-0335.

MR. QUESNELLE: Okay, thank you. Thank you.

Ms. DeMarco, would you like to add anything to the...

MS. DeMARCO: Mr. Nettleton has done a great job at introducing the concept and issue, and I will just confirm that it now has officially been filed in the EB-2017-0335 proceeding.

MR. QUESNELLE: Thank you very much for bringing this to our attention. Thank you. Okay.

MR. NETTLETON: Those are my preliminary matters, and I'm happy now to introduce the panel, Mr. Chairman, if that suits.

MR. QUESNELLE: It certainly is, Mr. Nettleton. If you wanted to introduce them, and then Ms. Anderson will affirm them.

MR. NETTLETON: Thank you.

Panel, seated before you is part of the customer engagement panel. Unfortunately the other members of this panel who are with IPSOS have regrettably been unavailable to attend today, but we believe that they will be -- or one of the witnesses will be available on Monday, so the witnesses before you, let me introduce you to them.

Seated closest to the panel is Mr. Derek Chum. Mr. Chum is the vice-president of Indigenous relations. Seated beside Mr. Chum is Mr. Ferio Pugliese. You will recall, Panel, that Mr. Pugliese testified at the executive presentation. Mr. Pugliese is the executive vice-president of customer care and corporate development. And finally, seated beside Mr. Pugliese is Mr. Imran Merali. Mr. Merali is the director of customer care.

And Ms. Anderson, with that introduction, could the witnesses be affirmed?

HYDRO ONE NETWORKS INC. - PANEL 3, CUSTOMER ENGAGEMENT

Derek Chum,

Ferio Pugliese,

Imran Merali; Affirmed.

EXAMINATION-IN-CHIEF BY MR. NETTLETON:

MR. NETTLETON: Thank you, Ms. Anderson.

Panel, there are two documents that I'd like to have you bring up if you could. The first is Exhibit K1.2, which is the hearing -- the draft hearing plan, and I believe, starting at page 21 of that document, there is a chart with a summary of the evidence that you are responsible for for this, for the purposes of this hearing.

Do you have that chart before you, sir -- or gentlemen?

MR. CHUM: I do.

MR. PUGLIESE: Yes.

MR. NETTLETON: Thank you. And starting with you, Mr. Chum, can you confirm that the evidence listed beside your name is the evidence that you are sponsoring in this proceeding?

MR. CHUM: Yes, it is.

MR. NETTLETON: Sir, can you make sure that your microphone is on? I just want to make sure.

MR. CHUM: There we go.

MR. NETTLETON: Mr. Chum, do you have any corrections or changes to make to that evidence?

MR. CHUM: No, I don't.

MR. NETTLETON: And therefore, is it accurate to the best of your knowledge and belief?

MR. CHUM: Yes, it is.

MR. NETTLETON: And do you therefore adopt that evidence as your evidence in this proceeding?

MR. CHUM: Yes, I do.

MR. NETTLETON: Thank you. Mr. Pugliese, starting at page 21, you will see that you have a list of evidence beside your name. Can you confirm that this is the evidence you are sponsoring in this proceeding?

MR. PUGLIESE: Yes, I can.

MR. NETTLETON: Do you have any corrections or changes to make to that evidence?

MR. PUGLIESE: No corrections.

MR. NETTLETON: Or changes?

MR. PUGLIESE: Or changes.

MR. NETTLETON: Thank you. Is that evidence therefore accurate to the best of your knowledge and belief?

MR. PUGLIESE: Yes.

MR. NETTLETON: Do you therefore adopt that evidence as your evidence this proceeding?

MR. PUGLIESE: I do.

MR. NETTLETON: And finally, Mr. Merali, I believe your evidence in the list of evidence starts at page 22. Do you see that?

MR. MERALI: I do.

MR. NETTLETON: Sir, can you confirm that that is the evidence you are sponsoring in this proceeding?

MR. MERALI: Yes, I can confirm.

MR. NETTLETON: And do you have any corrections or changes to make to that?

MR. MERALI: No corrections or changes.

MR. NETTLETON: Is it therefore accurate, to the best of your knowledge and belief?

MR. MERALI: Yes, it is.

MR. NETTLETON: Do you therefore adopt that as your evidence in this proceeding?

MR. MERALI: Yes, I do.

MR. NETTLETON: Now, panel, Mr. Pugliese has an opening statement, and if I could ask Mr. Pugliese to provide that now, that would be fantastic.

MR. QUESNELLE: Excellent. Thank you.

OPENING STATEMENT BY MR. PUGLIESE:

MR. PUGLIESE: Thank you, Mr. Nettleton. Thank you, Mr. Chairman and members of the Panel.

Good afternoon. As Mr. Nettleton mentioned, my name is Ferio Pugliese. I'm the executive vice-president of customer care and corporate affairs at Hydro One.

Mr. Merali and Mr. Chum are colleagues of mine, and you will be joined, I believe, Monday with representatives from IPSOS unfortunately unavailable today -- Ms. Guiry and Mr. Griffin -- to address matters relating to the customer engagement process that Hydro One carried out to inform our 2018 to 2022 application.

I just wanted to share some opening remarks with you. Our customer engagement process is intended to achieve three main objectives, the first one being increasing our awareness of changes in customer needs and preferences, and enhancing Hydro One's ability to provide service to meet those needs.

And the third would be using this information to achieve improvements in overall customer satisfaction levels.

We have extensive daily interactions, a multitude of channels with our customers on a variety of topics and through these exchanges, Hydro One obtains important insights about customer needs and preferences and how best they can address them.

Hydro One also carries out more formalized engagement activities throughout the year. For example, our annual large customer conference and engagement sessions with our First Nations and Métis communities is a source.

These forums also provide valuable information which assists us in understanding our customer needs and preferences.

In the summer of 2016, Hydro One also undertook a comprehensive customer engagement initiative. The IPSOS report that was filed in this proceeding explains the details about the process used to conduct this inquiry.

Over 19,000 customers participated, and we had the benefit of time to conduct this exercise well ahead of the final decisions taken by both senior management and the Hydro One board of directors regarding the content that is contained in this application.

Let me just briefly review some of the key findings that we found with the IPSOS initiative and the IPSOS study.

Not surprisingly, our customers' top priority is keeping costs as low as possible. This preference is influenced by a desire to see Hydro One demonstrate greater fiscal management and operating efficiency before considering rate increases.

Maintaining reliable electric service, electricity services is consistently the second priority to cost.

And then the third would be that delving deeper into areas of reliability and cost revealed that different customer groups with many different customer segments have different needs and preferences.

For example, large customers expressed a greater concern with service reliability than, say, residential customers and small businesses.

Large customers are supportive of asset renewal programs that focus on replacing end of life equipment.

However, valuing better reliability is offset by the concern for higher rates, impacts that may be required to achieve that result.

Power quality events and unplanned momentary power interruptions of less than one minute rather than sustained interruptions of one minute or more is primarily the concern of our large customer segment. Many customers who seek to grow their enterprises have raised concern with capacity challenges and the cost to access more power, grow load.

Higher rates for better reliability is not a preference held by the majority of our residential and small business customers. However, I will say that it has come to light in this application that the length and impacts associated with outages remain a significant concern for many of our customers, including, for example, First Nation communities in northern Ontario.

Findings from the IPSOS initiative were used to assist Hydro One in developing its distribution system plan, and that's also found in this application, as will be discussed by our investment planning and work execution panel. And this was an iterative process and one which is also informed by other equally important inputs, like deteriorating conditions of our assets, adopting changes that ultimately can achieve reliability improvements without increasing planned expenditures.

In other words, finding multiple ways to improve the outcome.

I would also like to outline that ongoing customer engagement that Hydro One has progressed since the application was filed, we've continued to conduct our ongoing customer satisfaction surveys and other forms of customer engagement. Recent results have been positive and customer satisfaction scores are continuing to trend positive and improve.

We've also continued to see a shift in customer expectations concerning service experience. So customers are continuing to become more demanding in how we interact with them.

Customers relationships are obviously evolving, but maybe let me give you an example. Traditionally, one of the key points with customers is times of outages. When those circumstances occur, customers would typically call into the call centre and obtain information about the outage. We are now seeing significant changes with that information, how those flows and exchanges associated with these touch points are happening.

Investments improved technology now allows Hydro One, as opposed to our customers, to initiate contact at the time of the outage to provide timely updates about causes and expected duration, and all done through email or text responses -- so using other channels, such as a digital channel to improve our connectivity with customers.

No longer is it necessary now for customers to wait online for a call centre response. Adopting those sorts of changes is just one of the ways that remain changes in customer expectation that they advised us of, and ways to improve overall satisfaction.

One of the key tenets to Hydro One transforming to a more commercially oriented enterprise is its focus on improvement in the customer relationship. So we are pleased with the changes we are introducing and the improvements we're seeing.

However, there is much in more to do. Our focus will be to continue to find ways to do this and improve in our customer relationship, and balancing the needs and preferences with our ongoing requirements to of course be good stewards of the assets.

And that concludes my opening remarks.

MR. QUESNELLE: Thank you, Mr. Pugliese.

MR. NETTLETON: Thank you, Mr. Pugliese. And with that, Mr. Chairman, this panel is available for cross-examination.

MR. QUESNELLE: Okay. Mr. Buonaguro?

CROSS-EXAMINATION BY MR. BUONAGURO:

MR. BUONAGURO: Thank you. Good afternoon, panel. My name is Michael Buonaguro. I'm here for the Balsam Lake Coalition.

Before I start, I did prepare a electronic compendium. I don't have paper copies. I made the electronic compendium in order to make it easier for whoever is handling the presentation system to pull up my references. There are only three documents in it in any case.

So maybe we could have that marked as an exhibit, because I think it is on the web drawer.

MR. SIDLOFSKY: That will be Exhibit K4.5.

EXHIBIT NO. K4.5: BLC CROSS-EXAMINATION COMPENDIUM FOR HONI PANEL 3

MR. BUONAGURO: Turning to the first tab in the compendium, this is Exhibit I, tab 5, schedule BLC.4, which is an interrogatory in this proceeding.

And if I look down at the bottom where it says witness, it says Ferio Pugliese, who is on this panel, correct?

MR. PUGLIESE: Correct.

MR. BUONAGURO: And I think it was Mr. Merali who helped me with this in the technical conference, but now I have the man, right? It's your interrogatory response? Or you are responsible for it?

MR. MERALI: Yes, correct

MR. BUONAGURO: Thank you.

Now, just for context, the interrogatory brings the attention of Hydro One to the website, and part of the website it was saying -- we noted it said:

"We also advocated for distribution rate protection for our rural customers who will now see delivery charges fall in line with urban delivery rates. This relief will be long-lasting."

And in view of that statement on the website, we asked the question, it be:

"Please provide any documentation submitted by Hydro One to the provincial government with respect to Hydro One's advocacy for distribution rate protection."

And the response to (b) on the next page, first it says:

"Please see attached white paper on addressing affordability."

When I say "attachment" I'm going to refer to it in a second. The second part of the question B asked about specific advocacy for distribution rate protection with respect to seasonal customers.

And in part B, Hydro One says -- did not:

"Hydro One did not specifically reference our seasonal customers, but many proposals in the attached white paper also benefits seasonal customers."

So with that context, I don't want to turn to the attachment, so in the technical conference -- and tab B of the -- tab B of the compendium, which is now K4.5, actually includes the full conversation I had, primarily with Mr. Merali, with respect to this topic, and so I've included it -- it's not that long. It's about -- it's from page 142 to

152 of the technical conference, Day 2.

And Mr. Merali helped me in a couple ways to initially -- first he confirmed that this paper was provided to the provincial government in response to request from the provincial government in early January 2017, correct?

MR. MERALI: Correct.

MR. BUONAGURO: And generally speaking, when I asked the question, what was the question, is -- Mr. Merali helped me out with that. He said, and I'm quoting now from the technical conference transcript:

"The Ministry of Energy made a request to a number of market participants, not just Hydro One, to submit recommendations and proposals as to what could be done to improve the affordability situation for ratepayers in Ontario."

And he confirmed that that was the open-ended question that was put to Hydro One; correct?

MR. MERALI: Correct.

MR. NETTLETON: Sorry, Mr. Buonaguro --

MR. BUONAGURO: Sorry.

MR. NETTLETON: -- are you reading from the compendium?

MR. BUONAGURO: I apologize. Yes, I was reading from pages 143 to 144.

MR. NETTLETON: Thank you. Sorry.

MR. BUONAGURO: My apologies.

So in that context, if I can turn to the actual attachment. So I'm looking at page -- this is back to tab 1. This is page 9 of the paper that was submitted by Hydro One to the provincial government, and the date's January 30th, 2017.

So rather than going through the whole thing, which would take a while, this -- my understanding is that this page basically summarizes the recommendations that Hydro One made to the provincial government; right?

MR. PUGLIESE: That's correct.

MR. BUONAGURO: Okay. And I just want to go briefly through a few of them just to understand how they fit or do not fit into the distribution part of your business, so number 1, as I understand it -- it is on the screen if anybody wants to read it, but my understanding is this has largely to do with how the global adjustment is quantified and then paid for, and that's largely a commodity issue, and that it doesn't have anything to do directly or indirectly with distribution, with distribution cost or distribution rates; is that fair?

MR. PUGLIESE: That's correct, not directly with distribution, but it does impact our customers.

MR. BUONAGURO: Well, fair enough, it impacts your customers on their total bill, but in terms of distribution, which is obviously the scope of this proceeding, it is not a distribution cost?

MR. PUGLIESE: No, it impacts our customers on the total bill.

MR. BUONAGURO: Fair enough. And my understanding, and correct me if I'm wrong, that something like this, if not exactly like this, was adopted by the provincial government through the Fair Hydro Plan?

MR. PUGLIESE: That's correct.

MR. BUONAGURO: Okay. Number 2 talks about -- if I can broaden it or summarize it -- it talks about consolidation of distribution LDCs generally in the province, right?

MR. PUGLIESE: Correct.

MR. BUONAGURO: And I guess that is distribution-related, but it is not a distribution-specific -- it is not Hydro One Network Inc.'s distribution cost; it is not rate-class-specific, for example. It is more of a general issue about consolidating distributors, right?

MR. PUGLIESE: Well, it applies the concept of referring to the studies done on distribution consolidation that suggests when that happens there is a host of costs that can be removed from the system --

MR. BUONAGURO: Right.

MR. PUGLIESE: -- that would benefit customers.

MR. BUONAGURO: Right. But it doesn't -- I'm just saying it is not a proposal that directly affects distribution rates in the same way that, I guess, number 3 does when we get to that.

MR. PUGLIESE: Well, yeah, it does, because if applied over a certain scale it would have dramatic impact on distribution rates.

MR. BUONAGURO: But not until company A and company B merge or one buys the other or so on, so forth.

MR. PUGLIESE: Correct, and when that scale happens, you can potentially -- or the province would see -- customers a benefit of upwards of 1.5- to 1.7-billion dollars in the distribution sector.

MR. BUONAGURO: Thank you.

MR. PUGLIESE: Of savings.

MR. BUONAGURO: And I'm not sure if it's necessarily fair to say that there is a specific program in -- reliant on this proposal, is there? It is just a general encouragement --

MR. MERALI: It is a general encouragement strategically that's been before the province for many years and one that Hydro One is in support of.

MR. BUONAGURO: Thank you. Now, I'm going to skip down to number 4, because I am most interested in number 3, so we'll get number 4 out of the way.

Number 4, and I will just read this one verbatim:

> "The Government of Ontario should establish an affordability fund (potentially funded from surpluses collected under the OESB) for LDCs to access so that Hydro One can provide relief to customers suffering from acute hardship who do not qualify as low-income assistance."

And obviously there is more detail in the body of the document, but this is -- my understanding this is -- obviously this is at least potentially distribution-related or it may be more fair to say total bill-related. It has to do with customers who are unable to pay their bills for some reason?

MR. PUGLIESE: Yeah, it is essentially an extension of the home assistance plan, and it is total bill-related, and not only -- it doesn't just apply to Hydro One; it is industry-wide.

MR. BUONAGURO: Right. And it talks about -- in the body of the proposal it talks about -- I believe it's talking about the OESB, and it talks about trying to capture customers who don't qualify for OESB; is that right?

MR. PUGLIESE: That's correct.

MR. BUONAGURO: But I assume it is still targeted for particular customers regardless of who their distributor is or what rate class they are in, for example?

MR. PUGLIESE: That's correct.

MR. BUONAGURO: It has to do with their ability to pay their total bill or portion of the bill or what-have-you?

MR. PUGLIESE: Yeah, and income level. There is a variety of criteria there that would define that.

MR. BUONAGURO: Right. Now, I don't know off the top of my head. Was this particular proposal implemented?

MR. PUGLIESE: This proposal was implemented. It is implemented today in the form of what is known as the affordability fund.

MR. BUONAGURO: Thank you.

Now I'm going to turn to number 3, and maybe we can actually turn to the actual full text for number 3, and that starts at page 7, which has the banner "customer concerns" at the top, excuse me, and then entitled "rural delivery rates".

Before we dive in, reading the summary, it says:

"Ontario should remove delivery charge rate inequity by providing additional rate relief to rural customers by bringing their distribution charges in line with the provincial average."

So that summarizes -- I guess that fairly summarizes the proposal?

MR. PUGLIESE: Correct.

MR. BUONAGURO: And looking at the page 7, which obviously has more detail on this, and I'm going to start at one, two, three, four, five, six, seven lines down, it says:

"The distribution charges vary between LDCs and are the driver of the rate inequity between urban and rural consumers. For example, some LDCs can charge their customers $15 per month for distribution charges, while Hydro One must charge its average residential customer $58 per month based on the cost-to-serve model. Hydro One's costs are driven by servicing rural and remote Ontario, where our customer density is very low compared to other LDCs, which serve regions with higher customer densities. If distribution charges were applied equally among all consumers in Ontario, the average charge would be approximately $30 per month, which would require many consumers to pay more, clearly not the intent of the Government of Ontario at this time."

So I'm going to stop there.

My understanding from that is that Hydro One, as a matter of principle, believes that there is an inequity of rates between urban and rural areas; is that fair?

MR. PUGLIESE: That's correct.

MR. BUONAGURO: Could you elaborate on that? What is the inequity?

MR. PUGLIESE: Well, when you look at the rate classification that we serve, and in particular what this is getting at was rate classifications in our urban compared to our rural rate classification 1 and rural rate classification 2 in particular, where we saw disparities between what an urban delivery rural delivery rate was relative to a remote rate.

MR. BUONAGURO: Okay. And the proposal talks about it in the context of how rates are currently set, which is the -- I want to directly quote it -- a cost to serve model. So rates are based on a cost to serve model?

MR. PUGLIESE: That's right.

MR. BUONAGURO: And I think what you're saying here, or what the proposal is saying here is that while the cost to serve model does result in rates for urban areas which are more dense with lower rates, under the cost to serve model, it produces higher rates for rural and remote areas.

Hydro One is saying that's not fair -- which is, I guess, a homonym or synonym for inequitable -- and in an ideal world, it doesn't matter where customers fall on the density line, if we can call it that, or the spectrum of densities, they should all be paying the same.

MR. PUGLIESE: I think with respect to this, if I can, I think what's important is you understand the context behind what went on with this. Just to get at your question, yes, there is an inequity in this cost to serve model between your rural rate classification and your urban rate, with the rural rates paying certainly more than the urban rate because there's a good lesser density and you are spreading the cost on the ground with less people.

The rationale behind this approach was to look at best practices, or practices that were similar in other jurisdiction that is we were asked to provide opinion on.

We were not the only ones. Other industry participants who were asked by the Minister to comment on this provided similar commentary to try to get to a point where you are levelling delivery charge between urban rates and rural rates. And that's what the context is behind this, because this is probably -- when you think of the customer feedback that we got from surveys and contact points with those customers and those rate classifications, this is a very common level of feedback that they were getting and providing us with respect to affordability. Hence the rationale for approaching this recommendation.

MR. BUONAGURO: Thank you for that. You used the word "affordability" in the title of your answer, but I'm looking at the -- at the text. It talks about inequity and it seemed to me to be suggesting that, well, yes, yes it actually does cost more to serve people in remote areas and it actually does cost less, generally speaking, to serve people in more dense areas. But from a rate perspective, Hydro One is suggesting it would be ideal if they were all charged the same. And that would be fair, and not necessarily having anything to do with affordability, but rather that's fair.

Is that part of what's behind this?

MR. PUGLIESE: I think it's both. It's fair and affordable.

MR. BUONAGURO: Okay. If I go on it says:

> "Recognizing that $38 per month is the average distribution charge, Hydro One recommends providing additional rate relief to rural and northern customers to bring the distribution charges in line with the average in Ontario."

And my understanding is that rate relief is in the form of -- what the proposal was is that the provincial government should provide that funding?

MR. PUGLIESE: Correct, because the program -- and it speaks to going to 2023, because I believe the province already had their intention with the DRP, distribution rate program, that was actually going to move to that program by 2023 anyway with the levelling of the delivery charge.

MR. BUONAGURO: Sorry, you've lost me. What are you speaking about?

MR. PUGLIESE: So your question was we had asked the government for relief to level the delivery charge.

MR. BUONAGURO: Right.

MR. PUGLIESE: And there was a program, or the government had suggested programs already in place to go to 2023 which is the DRP, which would be a levelling of the delivery charge. This is a bridge that takes us to there.

MR. BUONAGURO: What --

MR. PUGLIESE: And hence that was being funded by the provincial government.

MR. BUONAGURO: I'm sorry, I'm unfamiliar with that program. I'm getting mixed up. You are saying that prior to you making this proposal, there was already a DRP program?

[Witness panel confers]

MR. PUGLIESE: I want to draw your attention to the same document, page 10, "Stacking benefits." So if you look at page 10 and you look at the stacking of rural and northern Hydro One customers and then Hydro One customers with electric heat, you'll see 200 million and 90 million there.

MR. BUONAGURO: Yes.

MR. PUGLIESE: So that was what was asked for of the provincial government, to fund its tax base get to us to 2022 until such time as DRP became policy, which would level the rates.

MR. BUONAGURO: Okay. So what I'm not understanding

-- are you saying that the DRP is not the proposal or related to the proposal you have on page 7, that it's something else?

MR. PUGLIESE: Yes, the DRP is a program that would have taken effect in 2023, which would have achieved the result of levelling the delivery charge to urban rates.

What this is is a bridge strategy between 2017 and 2023.

MR. BUONAGURO: My understanding is that the distribution rate plan is in effect now.

MR. PUGLIESE: That's right.

MR. BUONAGURO: And that's a response -- it is basically an enactment of your proposal, at least the first part of the proposal we've just been talking about.

I understand there is a second part to the proposal, what you're talking about in terms of the $90 million.

MR. PUGLIESE: Right.

MR. BUONAGURO: And that has to do with, as I understand it, accelerating the transition to fixed charges for high-volume customers and to do that by a provincial subsidiary, which would be eliminated over time. I understand that.

MR. PUGLIESE: Okay.

MR. BUONAGURO: In my understanding, that didn't happen. Is that -- I don't think there is a subsidy for an immediate transition to fix charges anywhere, is there?

MR. PUGLIESE: I don't believe so.

MR. BUONAGURO: Right. So what we're look left with is the rural -- when we use this reference, rural and northern Hydro One customers provide rural and northern customers with a fair delivery rate close to the provincial average, $200 million, that's the proposal to provide provincially-funded subsidies to, in your case, R1 and R2 customers --

MR. PUGLIESE: That's correct.

MR. BUONAGURO: -- to bring their -- bring the distribution charges closer to the provincial average, right?

MR. PUGLIESE: Yes, that's correct.

MR. BUONAGURO: And that essentially what the province did?

MR. PUGLIESE: That is what they did.

MR. BUONAGURO: Okay. But you are talking about some other DRP that I don't understand. But if all you're talking about is these two proposals, and one of the proposals didn't happen and the other proposal did.

MR. PUGLIESE: That's correct.

MR. BUONAGURO: okay, I think I've got it. Thank you.

Now, if I go down to the last sentence, which I haven't read yet, on page 7, the first column it says:

> "That will require an additional $200 million in rate subsidiary for to Hydro One's rural non-seasonal customers."

And Mr. Merali in the technical conference attempted to help me with this, but I never got an answer to the very specific question that I had which is: Why was this line necessary in this proposal from Hydro One to the provincial government?

MR. MERALI: So as I mentioned during the technical conference, Hydro One was trying to address affordability for our customers. In our experience, our R1 and R2 customers were experiencing significant challenges with affordability, and we felt that immediately addressing that was the priority.

As mentioned, there were four proposals outlined to the provincial government as part of this paper. Three of them would and could provide benefit to seasonal customers. But this one, however, was more specifically targeted at our R1 and R2 customers.

MR. BUONAGURO: Why? I put in the entire technical conference transcript to show that we actually did have this conversation. I was hoping that based on some of your answers, that Mr. Pugliese had something to add to it because it was his interrogatory response and he wasn't at the technical conference.

I think what I'm still missing is that decision point: What is it about seasonal customers that Hydro One concluded meant that they should not or didn't need or shouldn't qualify for the distribution rate protection that you are proposing in this white paper to the government? And I haven't heard that part of the question. I haven't heard that answer yet.

MR. MERALI: It was simply a matter of prioritizing the customers that we felt were struggling the most. This proposal was obviously quite costly, and we target -- we made a proposal to target the customers that we felt were struggling with affordability the most.

MR. BUONAGURO: Right. So you are talking about targeting customers based on affordability. Is the distribution rate protection measure income-tested?

MR. MERALI: No, it's not income-tested.

MR. BUONAGURO: Right. How come?

MR. MERALI: That would be a question for our policy makers.

MR. BUONAGURO: Well, you didn't propose -- Hydro One did not propose to make it income-tested, correct?

MR. MERALI: Correct.

MR. BUONAGURO: And if we go over the page we have an affordability fund, which is in fact, as you pointed out to me, income-tested? With various criteria involved?

MR. MERALI: Yes.

MR. BUONAGURO: I am still struggling to understand where that fits in here, because if you go back to the original justification for the DRP in this document we talked about the use of the word "inequity" several times, and inequity -- I did a synonym search on Word to see what Word gave me in terms of what it means, and I got things like "unjustified" -- I'm going to do it right now, if you give me a second. "Unfair, unjust, discriminatory, inequal, biased, disproportional, or imbalanced".

And I understand the original line of thinking here, which is, I think, clear on the face of the document.

Hydro One was thinking there was a -- there is an inequity between low-density and high-density rates and that ideally you would have all customers paying the same rate no matter where they are, density-wise.

I understand the caveat that the government of Ontario doesn't want to go to the customers who are paying low rates now and suddenly increase their rates. And that was part of the rationale, so that instead what we're going to do is get provincial money to lower the rates of the people that are paying above-average rates, and that produces the DRP, but not for seasonal customers, and I obviously represent seasonal customers, and I'm just asking the question: Why were they excluded? What is it about them? And the response has been that it's based on affordability. As I pointed out, it is not an affordability-based. There is no income measure in the measure in the first place, so I'm left wondering: What is it about seasonal customers that left them out?

MR. PUGLIESE: Well, maybe I'll echo what Mr. Merali said, and I think you asked the question why is it that maybe you said seasonal customers are not important. It is not a matter of that. We advocate for all customers --

MR. BUONAGURO: I didn't -- sorry, I didn't say "important", I said why were they not included or part of --

MR. PUGLIESE: Why were they not included in that part of it. Because when we looked at the prioritization of those that needed this based on the data that we had, the

R1 and the R2 customers demonstrated a greater need at the time for us to address this issue.

And seasonal customer -- the seasonal rate classification is not the only rate classification left out of the Fair Hydro Plan.

MR. BUONAGURO: I assume by that you mean non-residential --

MR. PUGLIESE: Non-residential, correct.

MR. BUONAGURO: Fair enough. I don't --

MR. PUGLIESE: And to your -- [speaking over each other] -- and to your other question, sir, I mean, with respect to the income test, I think it's important that the Panel knows that the affordability fund which we also advocated for does not have a restriction on any of the rate classifications. Seasonal customers can apply for the --

MR. BUONAGURO: Right.

MR. PUGLIESE: -- affordability fund should they qualify.

MR. BUONAGURO: So that actually supports my argument, though, that if seasonal customers are acknowledged as being eligible for the affordability fund, then it sort of begs the question further: Why are they excluded from the DRP?

MR. PUGLIESE: Well, I think I answered that. In the scheme of prioritization they weren't put in that level of prioritization when we have 760,000 customers of the 1.3 million that's in the R1 and R2 classification. That does not mean that seasonal customers are not important to us.

MR. BUONAGURO: Fair enough. And again, I've never talked about the importance, so I wasn't suggesting that.

So what data are you talking about, in terms of prioritization? What is the data that you have on R1 and R2 customers and presumably seasonal customers that led you to prioritize them in a particular sequence?

MR. PUGLIESE: Calls -- go ahead.

MR. MERALI: When we looked at the number of customers in arrears, so as part of our collection program, we regularly analyze customers in arrears, and the number of customers in arrears and the level of arrears for R1 and R2.

MR. BUONAGURO: So you are saying an analysis of customers in arrears, seasonal customers tend to pay their bills and therefore do not require distribution rate protection?

MR. MERALI: No, it was a matter of prioritization, as Mr. Pugliese indicated. This paper was not meant to be an all-encompassing document to address every concern, it was a prioritization, and that, we felt, was a priority item for us to address at the time.

MR. BUONAGURO: Presumably by "prioritization" what you mean is you didn't want to ask for too much money from the provincial government?

MR. PUGLIESE: I don't think we're suggesting that.

MR. BUONAGURO: Okay.

MR. NETTLETON: Mr. Chairman, I've let this conversation go as long as it has, but I am struggling to see what the value or the evidence that's being tested as it relates to the relief that's being sought in this proceeding.

We are talking about a document that was effectively a piece of advocacy that went to the government, and the testing that is going on is the position that Hydro One took in that advocacy document, and I think what I heard Mr. -- and now I'm going to struggle with my bad Italian, but -- Mr. Bergano (sic) said was that this is supporting his argument.

And this really isn't about arguments, sir, this is about testing evidence that is relevant to the issues that are before the Board, so I'm just, I'm wondering if my friend could help explain what issue that is being explored with this line of questioning.

MR. QUESNELLE: Mr. Buonaguro?

MR. BUONAGURO: Thank you. First of all, I'd like to point out that your pronunciation of my name will be perfect on the transcript, so you shouldn't -- you don't have to worry.

[Laughter]

MR. NETTLETON: I'm so glad transcripts don't lie.

MR. BUONAGURO: So, I mean, it comes down to this. In this particular case we have -- we have a distributor who was specifically asked by the provincial government to provide proposals on how to help ratepayers, which presumably would include seasonal customers. And the company came up with several proposals, some of which were accepted by the provincial government and some of them were not, but in coming up with these proposals, they took a certain view of some of its customer.

This particular proposal, the distribution rate program, as we've gone through it, they came up with what I can read on the face of it that there was this argument about inequity that large -- sorry, low-density customers are paying too much and that high-density customers are paying too little and everybody should be at the same, which on the face of it doesn't distinguish seasonal customers in the low-density areas with other customers.

And they made a proposal which ended up, I believe, the numbers with the funding in the order of $250 million, but in making that proposal chose to exclude -- specifically exclude seasonal customers from the rationale and the proposal.

It goes to how the company views a particular customer class and then therefore what rates would be appropriate for that customer class.

There are other ways -- I mean, I understand -- I don't think he said this, but I understand that the DRP once implemented is a provincial grant. There is nothing that Hydro One can do to compel the government to add to it. There is nothing I believe the Ontario Energy Board can do other than recommend changes to the provincial government. I think it is going to do what it's going to do. But it has to do with how Hydro One is viewing a particular subset of its customers.

I mean, in this case we're talking about if you exclude the smaller number of urban customers in the seasonal class. We are talking about 150,000 of its customers, I believe 70,000 or 80,000 of which are in R2 density-level areas which, as a result of how this proposal played out in the government, are now going to be the highest -- will have the highest rates in Hydro One of all the residential customers.

So I'm just trying to understand what is it about seasonal customers that compelled Hydro One to not recommend that sort of funding or assistance or what-have-you for those customers. I understand there is an argument to be had after that, but I don't have that piece of information. I don't have what the decision point was.

MR. NETTLETON: Mr. Chairman, with all due respect to my friend, he's asked the question twice about why. The witnesses have responded. I heard Mr. Merali indicate twice that R1 and R2 customers were provided with a higher priority, and Mr. Merali also elaborated on that reasoning being based on an analysis of arrears.

So, I've heard very -- I've heard the argument that my friend has made, and I expect to hear it again in final argument. But I'm not sure what turns on the relief that's sought in this application with the advocacy position that Hydro One submitted to the government, and that ultimately the government decided in its discretion in how it designed a government program that obviously was not as favourable to my friend's clients, than to other Hydro One customers.

I just -- I just don't know what we can could with it.

MR. QUESNELLE: Mr. Nettleton, I think Mr. Buonaguro is getting to the end of the points that he wants to make as far as extracting the information that he didn't have before he came today, and getting a very detailed, you know, answers as to what the analysis was and why was there was separation, and I think it is coming down to prioritization, with some analysis to back that up.

But I would suggest that it's not -- the test isn't always what is it on the points being made or the information being sought that goes directly to the relief being sought.

If your client isn't seeking a certain relief, that doesn't bar it from being relevant. This is a customer engagement panel, and certainly the customers that Mr. Buonaguro represents are feeling that this is the only place they can talk to Hydro One about customer engagement and make arguments as to that engagement, perhaps should have been either accomplished differently or different view of his client.

So I think that it's a bit of a -- the test as to whether or not we can speak directly to the relief sought, given that this is a government program, isn't necessarily the binary test that we should be applying here. I think the customer engagement is the focus of this and I think the questions that Mr. Buonaguro is asking are appropriate.

But I think, your point taken, that the -- I think the answer has been given a couple of times and perhaps if there is one more layer that Mr. Buonaguro is after, that would be fine. But that probably be at the end of it.

Mr. Buonaguro?

MR. BUONAGURO: He's drinking, so I think he's either waiting for me to talk.

Thank you very much. Well, I'll just end it on this then -- on this particular area.

You've talked about prioritization and you've talked about data with respect to customers. Can you provide the analysis that the company used in support of this conclusion in January of 2017?

MR. PUGLIESE: We have the data that can support it.

MR. BUONAGURO: When you say you have the data that can support it, do you have the analysis that was done in January of 2017?

MR. PUGLIESE: We do.

MR. BUONAGURO: So I'd like to get an undertaking to provide the analysis that was done in January of 2017 in support of the proposal with respect to prioritization of customers between the R1 and R2 class and resulting in a conclusion by Hydro One to exclude the seasonal customers from the relief they're requesting from the government.

MR. SIDLOFSKY: That will be J4.5.

UNDERTAKING NO. J4.5: TO PROVIDE THE ANALYSIS THAT WAS DONE IN JANUARY 2017 IN SUPPORT OF THE PROPOSAL WITH RESPECT TO PRIORITIZATION OF CUSTOMERS BETWEEN

THE R1 AND R2 CLASS AND RESULTING IN A CONCLUSION BY HYDRO ONE TO EXCLUDE SEASONAL CUSTOMERS FROM THE RELIEF THEY ARE REQUESTING FROM THE GOVERNMENT

MR. BUONAGURO: Thank you very much. I think I'm almost done. I think I'm almost directly on time.

I did include a third document in my book. The document itself is really long; it is several hundred pages. So in fairness, I directed the company to a very specific cite that might come up in the context of this cross, and I'm going to ask the question.

So this is -- let's get the proper name. This document is filed in EB-2016-0315, which is a Hydro One proceeding, and the document is called "Hydro One report on elimination of the seasonal class."

This is a December 1st, 2016, update, and I'm just taking you to page 13 of the document.

If you are using the version I sent out, I believe there is a highlighting at the bottom of the page -- yes.

I didn't want you to sift through 200 pages to find what happened on that one quote. So I'm just going to read that. That's page 13 of the document, and it says:

> "During stakeholdering, some participants noted that total bill increases of the magnitude driven by the elimination of the seasonal class, combined with the move to all fixed residential rates, raises customer affordability issues which could possibly lead to customers choosing to disconnect from the grid. This would result in

the stranding of assets and negatively impact all remaining grid-connected customers."

Looking at that quote, I understand this is Hydro One reporting on views that it received from stakeholders, correct?

MR. MERALI: I believe this line of questioning would probably be best for Henry Andre, who is the expert in this particular area.

MR. BUONAGURO: Fair enough, and I guess I can take a shot at him on panel 7. But I think this is a more esoteric question here.

On its face, this is stakeholders saying to Hydro One -- and if I could add some context which I assume isn't in the document, sorry, we're talking about low-volume R2 customers being seasonal customers being transferred to the R2 class and having to pay high rates. And some stakeholders have said there's going to be affordability issues and there is a possibility that customers will choose to disconnect and this is stranding assets.

Does Hydro One agree that that's a potential problem?

MR. MERALI: Unfortunately, I can't say that I'm familiar with this evidence or this report, and I would defer to my colleague who could provide greater insight in this area.

MR. QUESNELLE: I think what Mr. Buonaguro is after, though, because we don't want to have the possibility of coming back, so maybe I can pose it slightly differently.

Hypothetically, it is a short paragraph, if you were at a stakeholdering meeting and someone brought that to your attention from a customer engagement point of view, what would your response be?

MR. MERALI: I mean, if large numbers of customers did disconnect from the grid, we largely operate a system where costs are fixed. So if that were to happen, then that would result in more costs being attributed to the remaining customers, which would cause potentially affordability issues and other challenges.

MR. QUESNELLE: So would you have -- anyway, this is off the top, but does Hydro One have a suggested solution to that or, you know the earlier document that Mr. Buonaguro had up that suggested that the problem is due to the cost allocation principles of the OEB, and what would the solution to this be? What principle would you have to basically temper to overcome this possible outcome?

MR. MERALI: I don't know -- we are seeing load decline overall, which is increasing costs for our entire customer base. I don't know that we necessarily have a solution with respect to seasonal customers.

I certainly know that Hydro One is working with some of our, in particular, commercial industrial customers to help them expand their plants which would ultimately increase load on the system, thereby reducing costs for all ratepayers. So I suspect if this were to happen, Hydro One could more aggressively pursue helping other commercial customers with economic development to increase load on the system to offset the stranded costs associated with seasonal customers going off grid.

MR. QUESNELLE: Thank you.

MR. BUONAGURO: I'm sorry, in answering, you answered how are we going to solve the issue if you drive seasonal customers off the grid because it is no longer affordable for them to be there.

I'm actually interested in the prior question, which is this is raising an issue -- customer affordability issues for seasonal customers in the first instance and my understanding -- my question would be how would you address that? How would you address not driving seasonal customers off the grid in the first place?

And I think you would agree with me, for example, that DRP-like funding would have done the trick?

MR. MERALI: I mean, certainly anything that would reduce the ongoing costs for seasonal customers would help to ensure that they remain connected to the grid.

MR. BUONAGURO: Thank you. Those are my questions.

MR. QUESNELLE: Thank you.

MR. BUONAGURO: I will have some more for Mr. Andre on panel 7.

MR. QUESNELLE: Thank you. Mr. Stephenson?

CROSS-EXAMINATION BY MR. STEPHENSON:

MR. STEPHENSON: Good afternoon, panel. My name is Richard Stephenson and I am counsel for the Power Workers Union. I have just a few questions for you.

The pre-filed material in your introduction today indicated that there was this customer engagement exercise undertaken by Hydro One, basically through the summer of 2016.

Have I got that right? That's the timing?

MR. PUGLIESE: That's correct.

MR. STEPHENSON: And I take it that that process had a variety of objectives. Part of it was simply to provide Hydro One with useful information regarding how it should operate its business; is that fair?

MR. PUGLIESE: And obtain direct feedback from customers.

MR. STEPHENSON: That's what I mean. I use -- the purpose of getting the feedback is to assist Hydro One in designing how to operate its business, fair, in some fashion?

MR. PUGLIESE: Better serve our customers, might be the way I would phrase that.

MR. STEPHENSON: Sure. But a part of it was more focused than that. Part of it was to inform Hydro One regarding the design of this rate application what the work plan should look like and mindful of rate impacts and that sort of thing. It was a direct input to -- to this application, fair?

MR. PUGLIESE: It was an input, yes.

MR. STEPHENSON: And we've seen previously in this case that Hydro One management makes its proposal to Hydro One board of directors regarding this application in around October of 2016. You are aware of that timing?

MR. PUGLIESE: I am aware of that timing.

MR. STEPHENSON: And I don't know -- we don't actually have to turn up the document, but did you have input to that document? This is the one that had Plan A, Plan B, et cetera.

MR. PUGLIESE: I do. I did, yes.

MR. STEPHENSON: Okay. So that is the document that management produces based on a whole series of inputs, including this customer engagement; correct?

MR. PUGLIESE: Correct.

MR. STEPHENSON: Okay. And on the basis of all of that, again, including this customer engagement, the recommendation that Hydro One management comes up with for the board of directors regarding the work plan is that it -- Plan A is recommended, Plan B is not recommended; correct?

MR. PUGLIESE: Correct, I believe it was stated as a Plan B modified, Plan B.

MR. STEPHENSON: Well, you are jumping ahead on me here. Let's take this one step at a time.

MR. PUGLIESE: Okay.

MR. STEPHENSON: And if you want to turn up the document, the document is Exhibit I, tab 3, SEC number 4, attachment 1. And there's an introductory cover page from Mr. Hubert, and then it goes on to the document itself. You remember this document. You've seen this before.

MR. PUGLIESE: I have.

MR. STEPHENSON: Okay. So in this document -- let's forget about where we wind up at the end of the day, but in this document, Hydro One management's recommendation to the Board is Plan A is recommended, Plan B not recommended; right?

MR. MERALI: Correct.

MR. STEPHENSON: Okay. And that represented Hydro One management's best judgment at the time, correct?

MR. MERALI: Correct.

MR. STEPHENSON: Okay. Now, we -- just coming back to the customer engagement, the customer engagement ends in -- sometime in the summer of 2016, and you don't go back out again; right? That's -- that's the customer engagement relevant to this application, correct?

MR. MERALI: Correct, the IPSOS study.

MR. STEPHENSON: Okay, so we know that at the end of the day the board of directors did not accept Hydro One management's recommendation regarding Plan A, and they tell Hydro One management to go back and try again, and ultimately Plan B modified is what falls out of that process, right? You know that.

MR. MERALI: Correct.

MR. STEPHENSON: Okay. So the choice -- that change, that is, from Plan A to Plan B modified, is not based on any new or different customer engagement information, is it?

MR. PUGLIESE: No.

MR. MERALI: No, it wasn't.

MR. STEPHENSON: And you never took those kind of options that, you know, the Plan B modified, obviously, was a new option. You never took that option back out to the field, so to speak, your customers, and shopped it to say in, you know, a variety of universes, what do you like better, A or Plan B modified, whatever. You never did that.

MR. MERALI: Correct.

MR. STEPHENSON: Okay. And then the next thing that happens is the Board approves Plan B modified, right, that happens, and you start embedding that into your -- this application, correct?

MR. PUGLIESE: That's correct.

MR. STEPHENSON: Okay. Then in 2017 the Fair Hydro Plan comes down the pike, and through the spring and into the summer -- I think it gets finalized in around June of 2017; right?

MR. PUGLIESE: That's correct, July of '17.

MR. STEPHENSON: And that, in my -- I suggest to you, actually -- it's pretty relevant to a big chunk of your customers, right?

MR. PUGLIESE: Correct.

MR. STEPHENSON: We talked about this before, but the R1 and R2 make up basically about half of your customers, correct?

MR. PUGLIESE: That's correct.

MR. STEPHENSON: And as we know about the effect of the Fair Hydro Plan is that those customers are now effectively insulated from distribution rate increases, subject to the formula in the act and the reg; correct?

MR. MERALI: Correct.

MR. STEPHENSON: And so, for example, they won't see, at least as long as the plan is in effect, any consequences that fall out of this application in terms of their distribution rates.

MR. PUGLIESE: Outside of the increases outlined here, no.

MR. STEPHENSON: Well --

MR. PUGLIESE: Outside -- no, the answer to that would be "not substantial".

MR. STEPHENSON: Well, no, not at all, period. Zero. They don't -- those customers will not face any distribution rate increases as a consequence of this application. They might face some as a result of the regulation, but not as a result of this application; correct?

MR. QUESNELLE: Perhaps you could explain what your thinking is on that, Mr. Stephenson, as to what the mechanics are that you view and perhaps put that to the witness --

MR. STEPHENSON: Well, you know, at some point this is a legal issue, and I'm mindful about -- I'm sure Mr. Nettleton will get into this, and it falls out, but --

MR. QUESNELLE: I'm not sure your question is being understood. That's all I'm trying to say.

MR. STEPHENSON: Yeah, I thought that they were aware of the Fair Hydro Plan to the extent that R1 and R2 customers' future bills will not -- are not affected by any changes in distribution rates set by the OEB, period. Their bills may be affected by the mechanics of the act and the regulation, but not by this Board.

MR. NETTLETON: Mr. Chairman, perhaps I wasn't clear enough with the scope in responsibilities of this panel, but as Mr. Merali had indicated, panel 7 is coming, and they are the rate design panel, and I think the questions that Mr. -- that my friend is asking are really directed at rate impacts and the impact that the Fair Hydro Plan will have on specific rates, R1 and R2, and their implications.

I think this panel clearly can address questions about customer needs and preferences and how the Fair Hydro Plan came to light during the development of this application. I think that's fair. But I think that when we're getting into the area of rate impacts and rate designs, and particularly with the Fair Hydro Plan, those questions should be saved and put to Mr. Andre on panel 7.

MR. QUESNELLE: Mr. Stephenson?

MR. STEPHENSON: I'm going to be -- this goes directly to customer engagement.

Needless to say, I don't want to get to the punchline before I get to the punchline, but the purpose of the customer engagement was they were, they've said, to assess, to get feedback from customers about things, for example, like rates and bills. And they did that before Fair Hydro Plan and we're about to hear that they didn't do it after.

I'm about to get to that question next. But first, I wanted to get their understanding of what the Fair Hydro

Plan did or didn't do in terms of impacting bills and rates that their customers see. These are the folks that were talking to customers about their concerns about bills and rates, and this was a big -- this was big news, I remember not that long ago, in 2017 about bills and rates.

MR. QUESNELLE: I think that context is fair, Mr. Nettleton.

MR. NETTLETON: Yes, thank you.

MR. STEPHENSON: So needless to say, regardless of the specific details, you understood that the Fair Hydro Plan had a -- was designed to and did have a material impact on R1 and R2 customers' bills and rates, correct?

MR. PUGLIESE: Yes, correct.

MR. STEPHENSON: And in fact, you guys put out a lot of customer information back to them about the benefits that they were going to get out of this, right?

MR. PUGLIESE: Correct.

MR. STEPHENSON: Okay.

MR. NETTLETON: Mr. Pugliese, could you speak closer to the mic? I think the court reporter is having difficulty.

MR. PUGLIESE: Sure.

MR. STEPHENSON: But we know you did not go back out, Hydro One did not go back out and do any re-do of its customer engagement in 2017, when it was armed with the information regarding the effect of the Fair Hydro Plan, right? That didn't happen?

MR. PUGLIESE: Correct.

MR. STEPHENSON: And you -- but you were aware that customers were sensitive about this trade-off between rates and reliability, right? That was something that was -- you asked them very specifically about, right?

MR. PUGLIESE: Yes.

MR. STEPHENSON: And for your R1 and R2 customers, the Fair Hydro Plan changes that calculus, doesn't it?

MR. MERALI: Yes, it does.

MR. PUGLIESE: It does.

MR. STEPHENSON: You could spend more on reliability in the near-term, 2017, '18, '19, '20, et cetera, and those customers would not see that, at least not for the time being, correct?

MR. MERALI: Correct.

MR. STEPHENSON: Given that this was one of the things you were looking at when you did the customer engagement in 2016, didn't you think that this relevant information regarding the Fair Hydro Plan necessitated that you went back out and got a fresh -- some fresh input?

MR. MERALI: It was -- I mean, we did one customer engagement for this filing and there was issues with respect to timing. So the Fair Hydro Plan did not come into effect, or start to really come into effect until July, and all of our customers didn't receive their first bills until the end of Q3 '17, I believe, and this filing was well underway. I don't know the exact submission date, but I believe was submitted prior to customers receiving the benefits associated with the Fair Hydro Plan.

MR. STEPHENSON: But here's my problem. I get that, and I think you're right about that timing sequence. I'm not quarrelling.

Like, this is a five-year application, so you get one -- you know, the Board gets one kick at the can at this thing, subject of course to what the Board ultimately decides, but in terms of at least what you're asking for.

I mean, isn't the reality that your customer engagement evidence, frankly, is out of date and is in some respect irrelevant because it -- you never took out to your customers some absolutely critical information that's going to govern the period of time for this application.

Sorry, that was a question. Don't you think -- I mean, isn't that a problem? This is out of date and frankly, in many respects, not relevant.

MR. PUGLIESE: Well, I wouldn't go to the extent of saying it's not relevant. I think any customer survey is out of date from the time it's put into print. So, you know, I think your suggestions are somewhat taken out of context.

I think we've received information from customers through a variety of sources, field visits, information we get into the call centre, contact directly with customers, emails, data channels that we get through a digital channel, web. There is a variety of sources we interact with customers on an ongoing basis.

So to suggest that the information is completely out of date, I don't believe is completely correct.

MR. STEPHENSON: All right well let --

MR. PUGLIESE: And you're looking at one aspect of that, sir, and there are several aspects of that survey that pertain to this application, and the decisions that we made that inform this application.

MR. STEPHENSON: Let me make this suggestion to you. I mean, you've spent a lot of time on this subject of customer engagement; it's your thing. I respect that.

But as informed as you are regarding your customers' needs, isn't it -- wouldn't you anticipate that if you went out to your customers, and I'm now talking about R1 and R2, and you told them we know -- we understand that you would like increased reliability, and we understand that you're concerned about your rates going up, under the Fair Hydro Plan, we can give you increased reliability and not have your bills go up. Do you think that's a good idea?

What do you think the answer they'd give you?

MR. MORRIS: I suspect you'd get a different result.

MR. STEPHENSON: They'd say yes, I'll sign up right now, won't they? That's what they're going to say, right?

MR. MERALI: I think we'd have different results if we did it again today.

MR. STEPHENSON: A different result meaning the one I just said, right?

MR. MERALI: Correct.

MR. PUGLIESE: I'm not sure. We haven't done the survey.

MR. STEPHENSON: Wait a minute, though, come on. This is your business. Like you're out there, and your job is to know your customers. Are you telling me you don't know your customers?

MR. PUGLIESE: I'm saying we have a variety of channels to which we are informed about what our customers think, and this is one.

MR. STEPHENSON: I mean, let's not play cat and mouse around this. Are you telling me that you think your -- you don't know that your customers -- if you gave them the option of improved reliability at no higher bill, they're not going to think that's a good idea?

MR. PUGLIESE: They probably will think it's a good idea.

MR. STEPHENSON: Okay, thank you.

MR. QUESNELLE: Thank you, Mr. Stephenson. Mr. Segel-Brown?

CROSS-EXAMINATION BY MR. SEGEL-BROWN:

MR. SEGEL-BROWN: Thank you. I'm Ben Segel-Brown. I represent the Vulnerable Energy Consumers' Coalition.

Could we turn to Exhibit A, tab 3 to attachment 1, page 33 of the document?

So this report is by one of Hydro One's experts, Fenrick, regarding -- and this particular table relates to the values placed on consumers of various classes of reliability improvements, specifically what is the cost implication for them of any interruption.

So are you familiar with the -- this particular report? I assume not.

MR. PUGLIESE: I'm sorry, I am not.

MR. SEGEL-BROWN: But as a matter of the impressions from your engagement with consumers, the implications shown on these tables is that the vast majority of the cost savings associated with reliability improvements go to commercial and industrial customers, primarily small commercial industrial customers. Is that consistent with what you've heard in your customer engagement?

MR. MERALI: We didn't attempt -- or the customer engagement didn't quantify the, I guess the cost associated with customers' outages. There is some data in the customer engagement with respect to the financial impacts for small businesses in particular.

So I think the customer engagement did capture that piece specifically, but it did not capture anything on residential, nor, to my knowledge, on large customers from a quantif -- from like hard numbers perspective.

MR. SEGEL-BROWN: Why did you choose to collect data on the small -- the small commercial and industrial customers rather than the other customer classes? What I'm getting at: Did that reflect the conclusion in this table that their losses are by far the most significant?

MR. MERALI: With respect to the design of the report, I think that would probably be best left to IPSOS, who will be up on Monday, but with respect to speaking with our customers and understanding financial impacts associated with outages, certainly small businesses have material financial impacts when there's outages, either power quality event or outages, but also our large customers as well have significant financial impacts when there is power events.

MR. SEGEL-BROWN: Okay. The other question I wanted to follow up on was something regarding the questions earlier today regarding the seasonal customer class. You stated that the fact that what you had used in prioritizing the R1 and R2 customers who my group somewhat represents over seasonal customers was the number of persons in arrears. To what extent do you think that reflects differences in income associated with the people who own seasonal residences?

MR. PUGLIESE: I don't have the answer -- the data to give that to you right now, in terms of what the difference in income levels were. With respect to your question, with the seasonal, between the R1 and the R2, and the prioritization, is it's the arrears, but it's also just even feedback from those customers indicating difficulty with paying those bills and the difference in the rates compared to the urban structure. That's the data that was also used.

MR. SEGEL-BROWN: Okay. One final question is the results of this consumer engagement seemed to much better reflect my client's impression of the concerns which are being expressed by vulnerable Canadians. What is it that went into this process that meant that the result actually reflected the importance of rates to consumers and that that seemed to feed into the Board's decision? What was it about this process that was different from what we've seen in the past?

MR. PUGLIESE: I want to make sure I understand your question. Process meaning the application of the Fair Hydro Plan or the involvement with the Fair Hydro Plan or this application?

MR. SEGEL-BROWN: No, your customer engagement process prior to the filing of this application.

MR. PUGLIESE: What was different?

MR. SEGEL-BROWN: What was different about it that it seems to have actually fed into the Board's decision and led to a decision which favours lower rates?

MR. PUGLIESE: Well -- and I'll let Imran speak to -- Mr. Merali speak to maybe some of the specifics, but, you know, one thing I will attest to is that in the past two years, as this application was being formulated, we did undertake some significant philosophical changes to which, and its approach to customers, and one of those philosophical changes was this concept of advocacy and to increase our focus on advocacy for customers based on feedback that we have been getting from multiple channels, and so I will say that that information informed this application and continues to inform the way we do business.

MR. SEGEL-BROWN: Thank you very much. That's all my questions.

MR. QUESNELLE: Okay. Thank you.

Ms. Grice, you are going to be just a few minutes, or -- okay. All right. Why don't we go ahead, and then we'll take a break.

CROSS-EXAMINATION BY MS. GRICE:

MS. GRICE: Okay. Great. Thank you.

Good afternoon, panel. I'm Shelly Grice, representing AMPCO.

If we could please turn to Exhibit B1, tab 1, schedule 1, section 1.3 of the DSP, page 16. Thank you. In this part of the evidence Hydro One is summarizing the key themes by customer segment that came out of the IPSOS report, and if we can just turn to the next page, page 17, at the very top, the first bullet identifies two of the major concerns of large customers, and it says that:

> "For large customers, power quality events and unplanned momentary power interruptions of less than one minute, rather than sustained interruptions of one minute or more, are the primary concern."

And I understand from the investment plan that Hydro One has power quality investments planned over the next five years, but I just wanted to spend some time talking about momentary interruptions.

And my understanding is that as of today Hydro One does not currently track momentary interruptions; is that correct?

MR. MERALI: I believe that's correct.

MS. GRICE: Okay, so as a result of this customer engagement that you did and the issue of momentary interruptions being of great concern to large customers, are you aware if Hydro One has any plans to track momentary interruptions? Is that something that has come out of this customer engagement?

MR. MERALI: I certainly know we've had lots of dialogue and discussions with our asset management team with respect to getting more insight into this area, and I believe that they are working on a number of items, but perhaps they can speak to the specificity of what they are doing.

MS. GRICE: Can you just help me out just so I am prepared for that panel? Is there anything with respect to Hydro One's system that prevents it from tracking momentary outages?

MR. MERALI: Unfortunately I can't speak to the technical capabilities for us to report on that. I apologize.

MS. GRICE: Okay, thank you. So this -- I don't -- if we can just turn quickly to Exhibit B1, tab 1, section 1.4 of the DSP. And this -- I'll wait 'til it comes up.

Sorry, I didn't give you a page number. My apologies. Page 12.

So what it shows there is that Hydro One is proposing a large customer interruption frequency metric, and this metric is related to sustained outages.

In terms of internal processes and recommendations made through the customer engagement process, were you involved in the derivation of this new metric?

MR. MERALI: I personally was not, but I believe some of my colleagues from the customer-service department were.

MS. GRICE: And just because this tracked sustained outages and not momentaries, do you have any insight into why it was based on sustained outages and not momentaries?

MR. MERALI: Unfortunately I personally was not involved in this measure, or the creation of this measure, but I believe once again our asset management panel will likely be able to provide some additional insight.

MS. GRICE: Okay. Okay. I'll bring it up with them. Thank you.

And next if we can turn to Exhibit B1, tab 1, schedule 1, section 2.1, page 27. Thank you. And what table 34 is showing is Hydro One's prioritization criteria and weightings, and for each criteria there is a points weighting and a percentage weighting, and my understanding is the criteria that's shown in this table is what Hydro One has used to assess and prioritize the candidate investments; do I have that correct?

MR. NETTLETON: Ms. Grice, again, this evidence has Ms. Bradley's name associated with it. And Ms. Bradley will be attending on the asset management panel, panel 5, and I think that that was intended for guidance. I would suggest this -- these questions be asked to her.

MR. QUESNELLE: Understood. I just make a general observation. I think Ms. Grice is recognizing that that is likely the case ultimately where the question had to be posed, but I think what we're experiencing here is the obvious nexus between customer engagement, what we get back from customer engagement, and then how it leads to activities that the company is proposing. And it was just a thought and this is right off the top, Mr. Nettleton, but I was thinking that it may be in future we start having customer engagement panels integrated with some of the asset management as we're going through this.

The loop is there. It is an information loop. We're getting customer engagement, how did that go, what did it lead to, and bang there is the asset subject matter expert to talk about it.

So I think what we're doing here is one common topic and it is two different panels. So I think Ms. Grice is wanting to test the waters on this, take it as far as she can, but recognizing that the asset management people will finish it off.

MR. NETTLETON: Mr. Chairman, believe me, a lot of thought and iterations went into the design of these witness panels, and we really struggled when we had five witnesses for a customer engagement --

MR. QUESNELLE: Mm-hmm.

MR. NETTLETON: -- because of IPSOS, and then adding asset management. And then do you add work execution to asset management and so the panel would have been...

MR. QUESNELLE: I recognize what you are saying. All I'm getting at is I think that it's an information loop that led to activities and this is -- and I think that what the company has done is reflected exactly what we're looking for in the RRFE, it's taking that engagement and putting it into the proposal, so we are dancing around the nexus of it.

MR. NETTLETON: my only point is that the actual weightings and how they were derived and the like is something that I know Ms. Bradley would be happy to address.

MR. QUESNELLE: Understood. Ms. Grice, do you have anything from an engagement perspective to ask of this panel?

MS. GRICE: Sure. My question was going to be if the weightings that we see in this table, if they were set before or after the customer engagement.

MR. MERALI: Unfortunately, I don't know for sure.

MS. GRICE: I'll try one last question. Do you know if they've changed since the last rate application based on customer engagement that's gone on since EB-201-3016?

MR. MERALI: I know there have been changes over the years, but I can't say whether it was specifically after that last application or not.

MS. GRICE: So if I go to panel 5 and I ask them if they were set before or after the customer engagement, they would be able to answer that question?

MR. MERALI: They should -- yes, they will be.

MR. QUESNELLE: And if it's brought to their attention, I'm sure they will be.

[Laughter]

DR. ELSAYED: Maybe one question I could ask is what are the mechanisms that you use in terms of your exposure to customer engagement, and how is that relayed to the asset management group and play into the asset management prioritization process?

What is the internal process that you have in taking this input and factoring it into the distribution system plan and the asset prioritization?

MR. PUGLIESE: There are a series of processes that happen internally, and maybe the best one I can point to is, you know, routinely on a monthly basis and a quarterly basis, we review the performance of the system and feedback coming from customers, as well as how the system is performing from a reliability point of view.

One thing that is, you know, is certainly post the submission of this application is an undertaking that we have taken on, especially with large distribution accounts, is applying account executives to large distribution accounts. So as you get a weighting or monitoring of how reliability and power quality is impacting them with raw data, we actually have a physical contact now taking place between account representatives and large distribution accounts.

Now that's in the early stages; that's been a long-standing practice with, you know, many of our transmission customers, but also larger customers. But now we've introduced these distribution accounts and that's also information that is passed back to our asset management team and shared through the internal processes and our business reviews where we can make decisions on any levels of improvements or adjustments that need to be made.

MR. MERALI: If I can add to that a little, if I may? With respect to the asset planning process, there are some investments that are customer-specific. So we work with the asset planning team to enter those investments in.

And then, as Ferio mentioned, we have key account managers and staff who coordinate with our customers, and they work very closely with the planning department who enter a lot of the investments into our tool, where assets are -- investments are ultimately prioritized or selected. And then there is a series of review sessions with the collaborative team that includes individuals from work management, asset management, planning, and customer, as a plan is iterated upon and ultimately selected.

MR. QUESNELLE: Anything else, Ms. Grice?

MS. GRICE: No, those are my questions, thank you very much.

MR. QUESNELLE: Okay, let's break until five after four.

--- Recess taken at 3:52 p.m.

--- On resuming at 4:12 p.m.

MR. QUESNELLE: Okay. I have misplaced my schedule. Who's up next here? Where did we leave off? Mr. McLeod? Thank you.

CROSS-EXAMINATION BY MR. MCLEOD:

MR. McLEOD: Thank you, Mr. Chair. Good afternoon, panel. My name is Michael McLeod, and I'm with the Quinte Manufacturers Association, and I kind of just want to ask you a few questions about the customer engagement process.

So I'm going to back up the train a little bit and take it to a bit higher level. I don't have any particular evidence I want to look at in the filing, but I've been informed, obviously as we all have, by the evidence that's there.

So I'm going to ask you sort of a general question, so -- and I'll put this in the context of, our members are very concerned, as you would understand -- they're all good-sized, medium-sized customers that are connected to the Hydro One network, and the one thing I can say, and I said it on the first day to the first panel, that one of the things our members have asked me actually to say is they are very supportive and very appreciative of the work of the field group for Hydro One in the Belleville-Quinte area, and that's very important to them.

But one of the things when we were discussing what we wanted to talk about with the engagement panel was how the process works, because -- and I'm actually going to throw out where I'm going with this right up front, is they don't think they're engaged. And so I want -- if you could help me -- and I don't know whether part of this becomes part of the IPSOS panel as well, but I think from a corporate perspective, from a Hydro One perspective, need to know how do we get our members engaged, because somewhere there is a disconnect in there and it is not coming through.

Now, we clearly understand this is -- the whole reason of going through this process is to set just and reasonable rates. We understand that. But to get to that point, informing that process from the manufacturing side is hugely important to our members.

So if you could just help me by kind of taking me through that engagement process that they think, we think, is not really happening. It is clearly happening when it comes to dealing with -- if there are faults or issues that are local to the distribution connection. that is not the issue. And as you know, we have manufacturers that do precision manufacturing, especially in plastics, so those kind of fault our issues, but that's what they're happy with, and so with that introduction, if you could kind of help me through this process that Hydro One goes through in the customer engagement, because somewhere, as I said, there is a disconnect here, and they want to get that fixed.

MR. PUGLIESE: Well, maybe I'll start, and then I'll have Imran chime in on some other items.

It's a great question, and it's a customer segment that is critical to us as growing. We certainly want to do everything we can to continue to improve the engagement with our large distribution accounts, large customers, manufacturers, and so on. I've actually been out to your neck of the woods a few times, out to chamber of commerce meetings there in Belleville and Kingston, and heard directly from the community there on this very matter.

So what are we doing about it? There is as a few things. I mean, obviously the IPSOS survey is a source and it is a snapshot that allows us to get that sort of quantitative data.

What we are finding with the large customers, though, in particular is the qualitative data is really important too, which is the engagement directly with the -- with industry. So I mentioned to you key account representatives with our large customers is now breaking that out geographically, assigning them to various customers, and now having regular program review meetings with the customer. That is something that is early days, it's underway, and you will see more of that.

The other phases we introduced, our large customer conferences have been going on for some time in the company. We overhauled that process this year to make that large customer conference more specific to some of the trends and issues that we're hearing from large customers.

And as you can appreciate, most of that has to deal with reliability and power quality issues, and so we have our asset team, our planning team, everyone there to deal with that.

So -- and then maybe to get your other question is, I think what would be very important is even post this is to get discussions around who, in particular, amongst your group you would want us to engage with, and we should arrange to engage in those meetings as soon and as quickly as possible. If there are significant gaps that you see, allow us the opportunity to look at those, and I assure you we'll act on those and lead on those.

It is an area of the business that has now in the last six, eight months gone through a tremendous overhaul, and it's like I was saying to the gentleman earlier, that we change the philosophy of how we are doing business, how we are engaging. We've done a lot with the residential customers. There is a lot of work that needs to be done with large distribution accounts, C&I customers, and small businesses.

MR. McLEOD: That's helpful.

Now, one of the issues that also came up in this is -- and that's maybe for the IPSOS panel -- is when the Chair asked me whether or not there is an issue for the IPSOS panel earlier. There may be.

When I went through the IPSOS surveys, and four or five surveys that went from 2016 into 2017, there was nobody there from, and I'll say "our part of the world", and what became of particular interest to us, and it came up in our discussions amongst ourselves, when we surveyed all our members, and as I'm sure you probably know, industrial manufacturers keep their information to themselves, the one thing they did agree on that was that there wasn't any engagement with any of them aside from just the regular contact with field folks from Hydro One.

So when I went through the IPSOS surveys, I'm curious now, and you may not be able to answer this, is how did they determine where they were going to hold the customer meetings?

The closest one was Kingston, and that doesn't help because, obviously, for manufacturers, there was 24/7/365. That's their business, and to get out here becomes a bit of an issue for them.

So how is that determined and what do we do going forward? I mean, what would be the things we could look at going forward, and is that a Hydro One thing or is that an IPSOS thing? I think it is a Hydro One issue ultimately, because you have to sort of "how are we going to do this?", but the surveys were there. It's great. We saw folks that are around the table here at the surveys, but we weren't there, so part of that's our problem, but we are looking to find that fix, and hopefully this will work.

So I guess I'm saying is that an IPSOS thing? Like, I don't -- we don't even know how even started out contacting, who should even show up, so I think that's part of the issue.

MR. MERALI: Yeah, so IPSOS, I think, would be best able to determine how the geographical occasions where we had the in-person workshops were selected, and there's some references in the IPSOS report, and I can dig them out if you like, in terms of how we reached out. I believe that we reached out to every large customer on file that we had. We sent e-mails to every commercial industrial customer, so could we have done better? Absolutely. But I don't think it was necessarily for a lack of trying that your clients weren't -- didn't participate or were unable to participate in the IPSOS engagement.

If I might just spend a moment building on Ferio's earlier remarks, you know, IPSOS is clearly one vehicle which we used, but over the last 12 to 24 months in particular, there has been significant changes within the customer group to really enhance and augment the relationship we have our large customers and commercial and industrial. And I'll just cite a couple quick examples.

The first historically the zone superintendents had the accountability for the relationship with our large customers. We feel that there is a need to have that central view of the customer and that accountability for the relationship with our large customers now rests in the customer-service group.

The group that -- from the OGGC, our operating group, that reaches out to customers for planned outages and unplanned outages historically sat within operations. We have also brought that into the customer group, so we are really ensuring that we have the touch points, we have the relationships.

Candidly, historically, we did not have up-to-date contact information for everybody who we should reach out to. Are we reaching out to the CEO or somebody in the plant with respect to an outage? So we've undertaken significant efforts to really improve our relationships, our contact information, and organizationally really alter the structure to make sure that we have that constant regular dialogue and we don't necessarily need to rely on an IPSOS report to determine the needs of our customers.

MR. McLEOD: Okay. So that's very helpful. So as you know, we have manufacturing hubs throughout the area where the plants feed each other, and they are all virtually just-in-time operations. So that engagement then from staff level to field, to bring that closer together in those hubs or whatever is appropriate, ultimately at the end of the day, is hugely important.

Because that's where that contact -- as you said the touch points are -- if there's issues with respect to the service quality, delivery, power quality, costs, as you know it's -- we've talked about enough in here that rate impact is huge.

They are looking for certainty in this kind of thing and that becomes very valuable. Anyway, those are my comments.

MR. PUGLIESE: Just on that, too, to Imran's point, we'd like to engage in that with those groups.

We just finished some tours around southern Ontario. To give you an example, if you've got a manufacturing hub with a group of operators in a central -- I mean, it is important to meet with them collectively.

We just came back from a tour of southwestern Ontario where we met with the growers associations in Leamington to assess very similar issues to what you've just described. We had all the account representatives there. Our CEO was there, people from the customer organization.

As Imran was mentioning, we were sharing a multitude of information including load profiles and ways in which we were addressing specific issues to access and capacity...

MR. McLEOD: That is hugely important. I will add one other thing, because throughout the evidence in here, and it shows up in a couple of places, the value of DERs in some of these hubs is becoming increasingly important. So that's something they want to talk about at the end of the day, and then how does that ultimately build in rates and everything else. We understand all that, so I appreciate your comments.

Thank you, Mr. Chair. That's it for me.

MR. QUESNELLE: Thank you, Mr. McLeod. Mr. Woon?

CROSS-EXAMINATION BY MR. WOON:

MR. WOON: Thank you, Mr. Chair. Good afternoon, panel. My name is Robert Woon and I represent OSEA.

I just have a few questions, and we are going towards the end of the day here.

In regard to OSEA and Interrogatory No.5 -- you don't need to pull it up, but basically we asked some questions about how Hydro One was going to meet its 2020 target provided by IESO on conservation.

In it, you referred us to SEC 29, and I think we would want to bring that up. It is basically you filed a revised scorecard. It is exhibit I, tab 18, schedule SEC 29, page 3.

UNIDENTIFIED SPEAKER: My laptop just decided to crash.

MR. WOON: While we wait for the scorecard. It's basically the scorecard you provided annual targets, and one of our questions was how are you going to meet your

2020 targets and did you have any annual targets. And you provided some annual targets.

So for example for 2017, your annual target to meet was 60 percent and then next you're going to do 75 percent, 2019 88 percent, and then by 2020, you're going to reach your 100 percent target.

MR. NETTLETON: Mr. Woon, excuse me. I do think you we need to wait to have the scorecard. If you are citing statistics, I think it is only fair for the witnesses to see the scorecard statistics that you are referring to.

MR. WOON: I will wait to ask the question. I'm just providing the context of where we're going.

It is Exhibit I, tab 18, schedule SEC 29, page 3 of 4.

Now that we have it up on the screen, it is the -- yes, it is the CDM column. So we, I think, shift the shift the screen to the right, we will actually see the targets that we are talking about compared to the actuals.

So I see you only have actuals for 2015 to 2017, and then you have your targets from 2017 onwards to 2020 about what you expect to accomplish, how are you going to accomplish that 2020 target.

My question for you is: What is Hydro One doing to ensure that it meets its annual targets?

MR. MERALI: There are a variety of facts, and we are on track to meet our targets as outlined here.

We solicit customers to participate in conservation programs through a variety of channels, our own outreach, and we also for various programs contract with different entities to do some sales and outreach on our behalf.

We are continually looking at program design to make sure that it's suitable and meets the needs of our customers.

And at this time, we feel pretty confident in our ability to meet our targets as outlined here.

MR. WOON: So one of the things you are doing is you have your CDM that you filed with IESO. You actually filed that in evidence in response to OSEA interrogatory 6.

One of the questions I had was -- you talked about just engagement with customers right there about how you need to target.

One of the questions in interrogatory OSEA number 6 was how are you that tracking it, and the response was that you don't track the customer uptake of some of the CDM programs after you have those education sections.

So one of my questions was: Why not? Why not track, you know, how successful your outreach is in getting market penetration for CDM?

MR. MERALI: Would you be able to pull that up?

MR. WOON: That's OSEA 6, Exhibit I, tab 17. Do you see the response to sub question 3 -- sorry, that's 3C and D.

MR. MERALI: Oh, okay. So this pertains to our get local sessions when we do out reach to customer.

So typically, in those type of sessions you are out in the community, you're out in the First Nation community, and we provide information on conservation programs, details on what the programs contain and information on how customers can register.

But at that point in time, you know, the customer then has to take the action, contact a third-party, register, submit the application and so on and so forth, and we've just -- we never followed through in terms of tracking that.

I guess in theory we could track. We met a customer today, write his account number down, we gave him a pamphlet for a CDM program and see if they took us up on it a couple of months later. But it is not something that right now we track. We simply, in those forums, provide the information to customers, details on the programs, the application process, and we have not followed the -- closed the loop.

MR. WOON: Okay. Again, I think the question is -- I was wondering why not, in the sense that if we're trying to see if these, you know, education sessions are actually being successful and actually getting uptake of CDM, why is Hydro One not following up, you know, with those same customers saying, oh, you know, we met last month, we met last year, I talked to you about CDM, have you guys engaged in it, just to see the progress of all those sessions?

MR. MERALI: I think this it's a good suggestion. It is not something that we've done in the past, but I don't think there is any reluctance to do it. We need to work out how we do it, but I don't think it's something that we'd be opposed to at all.

MR. WOON: If I can ask you to turn to the CDM plan that you filed as an attachment to that interrogatory, I just have one or two questions about the actual CDM plan.

On page 14 of 18 of the plan, you kind of outlined some pilot projects that you were considering.

I think you should -- you passed it, 14 of 18.

UNIDENTIFIED SPEAKER: As you can probably appreciate, I can't see the number.

MR. WOON: It is pretty small, yes, understood. So here you've kind of outlined some pilot projects that were included in your CDM plan. These were ones that you didn't file the business case at the time you submitted your CDM plan to IESO. But I hear you've indicated that you basically estimated that you would have submitted the business case by 2016 and end of March 2017.

We just wanted to ask questions about the follow up, where they are in the process now that you've filed the business case.

MR. MERALI: Unfortunately, I can't -- unfortunately, I'm not the CDM expert, but I can't confirm if the status of these exact -- these programs where they are right now.

MR. WOON: Do you know which panel would be able to answer because we were directed, based on the interrogatory, to ask this panel.

MR. MERALI: I think you've sort of got their customer group. What I can undertake -- maybe not undertake in a formal sense, but I'm participating in the customer panel, I guess a week from now or whenever it is.

I can certainly get information on these and provide it at that time.

MR. NETTLETON: I think Mr. Merali means to say that he's involved in the shared services panel and would be able to speak then, but again, I don't know if that's acceptable to my friend. If there is something specific that he is asking for, it may best be done by way of undertaking so that we understand what it is that you are seeking.

MR. WOON: Well, we have a few questions on the CDM plant. I don't want to waste time if the panel doesn't have that expertise. If you can just direct me to the panel that does. The only reason why I bring this up is because based on the draft hearing plan we were directed to come here on this panel, so if there is a better panel I'm more than welcome to come back another day.

MR. MERALI: So there is nobody else that will be witnessing that will additional information on CDM. I think of the collection of witnesses I probably have the most information. I don't have information on these specific pilots, but as Mr. Nettleton mentioned, if that's the extent of your question I would certainly be happy to get the information and present it back during my testimony on the shared services panel.

MR. NETTLETON: So Mr. Woon, is the question that you are asking what is the current status of these programs?

MR. WOON: Yes, that was one question.

MR. QUESNELLE: Take that as an undertaking?

MR. NETTLETON: We can take that as an undertaking.

MR. QUESNELLE: Why don't we do that.

MR. NETTLETON: I think Mr. Merali is saying the most -- perhaps the most efficient way for that is to happen is by him addressing that undertaking orally when he next testifies. That's all.

MR. QUESNELLE: Okay. Great --

MR. WOON: That's agreeable to me. So why don't I ask a few questions, and if it's by undertaking, it's by undertaking.

MR. MERALI: Okay.

MR. WOON: One of the other questions we had was since you filed your CDM plan with the IESO have you considered any other pilot projects, specifically any ones that incorporate sustainable energy technologies?

MR. MERALI: I'd need to take that as an undertaking.

MR. SIDLOFSKY: J4.6.

UNDERTAKING NO. J4.6: TO ADVISE IF ANY OTHER PILOT PROJECTS, SPECIFICALLY ANY ONES THAT INCORPORATE SUSTAINABLE ENERGY TECHNOLOGIES, HAVE BEEN CONSIDERED SINCE THE CDM PLAN WAS FILED WITH THE IESO.

MR. NETTLETON: We just filed a pilot project today. I don't know if that counts.

MR. WOON: One of my questions -- I think it's going to be a little moot now, given the announcement today, but I'll ask it anyways -- has Hydro One considered utilizing any, you know, GreenON funding or any other provincial funding for implementing new CDM programs outside of what's been approved from IESO, given the cap-and-trade funding hasn't occurred after 2015?

MR. MERALI: The team certainly considered using GreenON funding.

MR. WOON: And what were the results of that?

MR. PUGLIESE: Again, we can undertake to get you the specifics on it, but nothing's been committed.

MR. SIDLOFSKY: J4.7.

UNDERTAKING NO. J4.7: TO ADVISE IF HYDRO ONE HAS CONSIDERED UTILIZING ANY GREENON FUNDING OR OTHER PROVINCIAL FUNDING FOR IMPLEMENTING NEW CDM PROGRAMS OUTSIDE OF WHAT'S BEEN APPROVED FROM IESO.

MR. WOON: One last question we have is about energy storage facilities and whether Hydro One has ever considered these types of programs and, if not, why not.

MR. MERALI: Energy storage, did you say?

MR. WOON: Yes.

MR. PUGLIESE: Well, I'm -- I would just echo my counsel's comments on the recent submission today with Anwaatin that we are giving consideration to a pilot there. It is not CDM-related, but it we are giving consideration to that and undertaking that.

MR. WOON: Those are my questions, Mr. Chair.

MR. QUESNELLE: Okay --

MR. NETTLETON: Mr. Woon, just to help you as well, the panel 5, the asset management panel, would also, I think, be able to discuss with you any questions you may have about two other energy storage initiatives that are on the record in this proceeding. One is the EPRI Hydro One storage initiative and the second is one that came up in the technical conference involving a pilot project on Christian Island near Parry Sound, but Ms. Bradley, I'm sure, would be happy to speak to you further about those two.

MR. WOON: Thank you.

MR. QUESNELLE: It is Parry Island, near Parry Sound, and it is Christian Island near Midland and Penetang -- [Laughter] The -- thank you.

Okay. Moving right along. Mr. Ladanyi.

CROSS-EXAMINATION BY MR. LADANYI:

MR. LADANYI: Thank you, sir.

My name is Tom Ladanyi. I am consultant to Energy Probe, and my questions are actually just in two areas, and perhaps I don't have the right panel. One is going to be about -- or one series of questions about in-sourcing of customer-care costs, and I think I have the right two witnesses looking at the interrogatory responses, and the other area is essentially the ongoing costs of customer engagement. And I think you people are responsible for that as well.

So first, customer engagement. As I understand it, you had a major initiative on customer engagement in 2016; is that right?

MR. MERALI: Correct.

MR. PUGLIESE: Correct, yeah.

MR. LADANYI: And I'm interested to know, so this was a large initiative. Now you are continuing customer engagement at some lower level, not spending as much money; is that right?

MR. MERALI: Correct.

MR. LADANYI: So how much, roughly, customer engagement dollars are in the 2018 base year budget? That's the budget that will be escalated using your incentive regulation formula.

MR. MERALI: I don't have a specific number for you, in terms of engagements specifically, and just so I can clarify the question a little bit, like, when we refer to "engagement" we refer to surveys we do with customers or outreach, some of the large customer conferences or First Nations conference, so we view interacting with our customers through a variety of means and forums as engagement, and there is a variety of programs and mechanisms through which we do that.

MR. LADANYI: So it is a group of programs --

MR. MERALI: Correct.

MR. LADANYI: -- that add up to what, roughly? Can you tell me? Or if it's too hard, I don't know what I'd say, it is probably late to ask for an undertaking responses, but...

MR. MERALI: I mean, I suspect it would probably be -- if we added all of the events together and various things we do, just throwing out a number, it would probably be in the million-dollar range.

MR. LADANYI: Okay. Now, I had some questions relating to an Exhibit B1, tab 1, schedule 1, but I'm going to defer those to a future panel when Darlene Bradley comes in, so I will not ask any of those questions.

So can we now turn to our presentation day transcript, page 46, please. There on line 9 -- I think it's you, Mr. Pugliese, speaking; is that right?

MR. PUGLIESE: That's correct.

MR. LADANYI: You motioned the "Get Local" program, so this is a new initiative that is establishing -- when I see offices and different municipalities, and just a minute ago we had on the screen an exhibit that showed that that cost $17 million a year; is that right? Or I --

MR. PUGLIESE: No.

MR. LADANYI: No, okay. So I got it wrong. Okay. How much does it cost per year?

MR. PUGLIESE: I don't have the cost of that program offhand.

MR. LADANYI: But it's an ongoing cost.

MR. PUGLIESE: It's an ongoing cost, but we are seeing certainly a decline in the level of activity with Get Local. There was a -- you know, to your point and your question earlier about 2016, putting the full court press on this, there was issues related to affordability measures, accounts receivable, and arrears, so we've made a bunch of changes to our collections policies, payment terms. Fair Hydro Plan obviously has come in and addressed a lot of affordability issues, so as a result, the volume of activity on Get Local that you saw in 2016 and mostly through 2017 is not as high as we see today in 2018 and likely will see a decline.

It doesn't mean the program will go away, but there will be less activity associated with that program.

MR. LADANYI: So when we look forward to 2022, when the --

MR. PUGLIESE: Right.

MR. LADANYI: -- current period ends, so with 2018 dollars, which I assume are somewhere in your budget, are they going to be typical of what kind of spending you will be making on these programs?

MR. MERALI: So maybe I can provide a little more colour to Ferio -- Mr. Pugliese's, sorry, comments. So when Get Local first started out we opened a few offices in our existing facilities, so our London call centre, our Markham contact centre, and our Sudbury field business centre, and it was done at a time when customers had a lot of questions, there was a lot of questions about affordability, and sort of the demand and need was there to do that.

Since Fair Hydro Plan, various things occurring, our bill redesign, a variety of tactics, demand for those physical sessions and for our customers to drop in has dwindled off. I mean, it is virtually non-existent. So at this point, with respect to our -- like, the offices are open, but there is no plans to expand physical office space for customers on a drop-in basis.

There is another aspect of our Get Local program which is, we call it our First Nations Get Local program, and that program is quite active with representatives from Mr. Chum's organization as well as from my organization. And we've gone around the province and visited -- I don't know if you know the exact number, Derek.

MR. CHUM: In 2017 it was 35 communities that we visited, and so far in 2018 we've been to eight new communities.

MR. LADANYI: So you were looking at redeploying the Money, that's what you're telling me, possibly into the program to go to Native communities, is that right?

MR. MERALI: Yes. It is actually quite a low-cost program now, because we simply take one or two of our staff and we go out to a community for a day. They work in the community centre or the chief and council building. We do a bit of a town hall with residents and then meet one-on-one. So the costs of running that program are actually pretty negligible, because it is really just travel and an individual's time for that day. There's no bricks and mortar operations, or significant expenditure associated with the program.

MR. LADANYI: And these individuals' salaries are already in the cost structure? They are not like new people being hired?

MR. MERALI: Correct.

MR. LADANYI: Now let's go to the area of in-sourcing of customer care costs. Can you turn to page 94, 96 of the presentation day transcript, please.

Further down a bit more. So there I'm asking a question about what you meant about in-sourcing when you mentioned it, Mr. Pugliese. So at that time, you were considering -- you were you looking into re-in-sourcing or in-sourcing the custom portion -- some portion of customer care, and you were comparing those costs to what the old Inergi costs were.

Can you tell us, how is this advancing?

MR. PUGLIESE: It's early days. It's advancing well, from what we can tell. Mr. Merali oversees that area and he can give you some more specifics. But the intent of that in-sourcing was to address, on a cost-neutral basis, quality issues related to customer outreach.

And so -- and no disrespect to the previous contract provider, but we felt that if we were going to embark on a strategy where we wanted to be more customer-intimate and more customer-focussed, we felt we should own that relationship ourselves. So bringing it back in needed to happen.

Negotiations have taken place with the PWU and the Society, and we've since embarked on new collective agreements that embed flexibility with language to allow us to achieve that cost neutrality, but at the same time, work with changes in the job classifications that give us greater flexibility in how we can actually respond to customers.

So you will note today, for example, the call centre is open on Saturdays and we are able to do that and implement that without additional costs, but in terms of spreading the operation costs of the business across the days that we function.

Like I said, it's early days. It came in and became active on March 1st of this year, and we continue to monitor and track against our performance and I would say that it is tracking positively. We are seeing the results that we wish to see and the significant performance improvement and customer satisfaction improvements, along with tracking on cost improvements.

If you wanted to add anything more...

MR. LADANYI: Could you turn to then -- you mentioned discussions with the Power Workers' Union. Could you turn to tab 22, Energy Probe 29. Towards the bottom of your response there, in the second to last paragraph, I understand that you are contemplating possibly 400 employees coming back on board, or coming on board from Inergi to Hydro One?

MR. PUGLIESE: That's correct.

MR. LADANYI: And would these employees be all going into the Power Workers' Union and Society of United Professionals?

MR. PUGLIESE: They already were members.

MR. LADANYI: They already were members?

MR. PUGLIESE: Correct.

MR. LADANYI: And they were getting all the benefits as members of those organizations get?

MR. PUGLIESE: Correct.

MR. LADANYI: And you were paying for it originally in the Inergi contract, correct?

MR. PUGLIESE: It would have been in the Inergi contract, correct.

MR. LADANYI: So there should really be no impact on costs, you're telling me, from them re-entering Hydro One again as employees?

MR. PUGLIESE: The impacts on costs -- and this is where Mr. Merali can give you some examples. The impact on costs more come with the flexibility of the language in the renegotiated contract. So although they were Inergi employees and members of the PWU and the Society, we renegotiated the collective agreement and in that there are provisions with respect to staffing.

To give you a example on staffing, in the past we had fixed staffing levels without any provisions for casual workforce. And now today, that no longer exists.

You have the ability to reduce the workforce or, if you needed to, you can use a casual workforce to adjust to the ebbs and flows of the business. And at the same time, there were adjustments to the job classifications to allow agents, while on the phone, to take on certain duties that previously they were not able to do. And then when we would go and ask for that to be done, we would have to pay a service charge or up charge for them to do that. Those have been removed in the new contract.

MR. LADANYI: Very good. Thank you. Just for reference, can we turn to tab 41, Energy Probe 62, page 2.

And those are -- and I won't ask you to do anything more except -- if the transfer of those 400 employees, and that would be in 2018, I assume, is it reflected in the FTE numbers that we see on that page or not?

MR. MERALI: It does not appear as though they are reflected.

MR. LADANYI: Okay, thank you. And I think I'm getting close to my last question.

If you could turn to tab 22, Energy Probe 27. So as I read that response, what you have currently in the budget, the base year budget, are costs as if everything was outsourced to Inergi.

And you were saying that those numbers are an approximation roughly of what it will cost when you re-in-source the customer care costs, is that right?

MR. MERALI: Correct. So the in-sourcing, for clarity, has happened on March 1st. And as noted earlier, there was a number of represented staff across both the Power Workers' Union and the Society union. All staff were given employment with Hydro One, so it was basically a lift and shift, and the contact centre is pretty much all labour costs associated with that. So our costs of running the operation are at this time in line with the fees that were paid to our service provider, historical service provider.

MR. LADANYI: Okay. Now my last question. If you could turn to technical conference undertaking JT2.14. And here we see the costs; is that right?

MR. MERALI: Correct.

MR. LADANYI: And this is essentially confirming what you just told me?

MR. MERALI: Correct.

MR. LADANYI: Thank you. Those are all my questions.

MR. QUESNELLE: Thank you. We are coming up to five o'clock.

Mr. Rubenstein, are you going to finish off today or is this going to split -- I wouldn't want to go much past five. So if this is going to cause you to have to truncate or split it between now and Monday, if you'd rather wait until Monday, that's fine too.

MR. RUBENSTEIN: Well, I would prefer to wait 'til Monday just so I can just review my notes. I may not have any questions. It may be easier for all if I...

MR. QUESNELLE: And Ms. Durant, you will be available on upon available on Monday as well?

MS. DURANT: I will be available on Monday and I think I will need a bit more than my 20 minutes, and I've communicated that to Martin.

MR. QUESNELLE: Okay. With that, we are adjourned and everyone have a good weekend.

--- Whereupon the hearing adjourned at 4:50 p.m.