ONTARIO ENERGY BOARD

FILE NO.:	**EB-2017-0049**	**Hydro One Networks Inc.**
VOLUME:	**Volume 10**	
DATE:	**June 26, 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 Tuesday, June 26, 2018,
commencing at 9:03 a.m.

VOLUME 10

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

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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	Power Workers' Union (PWU)
MICHAEL McLEOD	Quinte Manufacturers' Association (QMA)
JAY SHEPHERD MARK RUBENSTEIN	School Energy Coalition (SEC)

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 McEACHRAN	Hydro One Networks Inc.

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E X H I B I T S

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

Tuesday, June 26, 2018

--- On commencing at 9:03 a.m.

MR. QUESNELLE: Any preliminary matters this morning, Mr. Nettleton?

MR. NETTLETON: Thankfully, no, Mr. Quesnelle.

MR. QUESNELLE: Well, let's get at it. Mr. McLeod.

HYDRO ONE NETWORKS INC. - PANEL 6, SHARED SERVICES, RESUMED

Tom Irvine,

Rob Berardi,

Lincoln Frost-Hunt,

Imran Merali; Previously Affirmed.

CROSS-EXAMINATION BY MR. MCLEOD:

MR. McLEOD: Thank you, Mr. Chair, and I will try to blast through this as quickly as possible.

Good morning, panel. My name is Michael McLeod, and I'm with the Quinte Manufacturers. That's, as I'm sure you know, the Belleville-Trenton area.

A couple things came up last week when we were talking to the engagement panel, and Mr. Merali was on this panel too, because I think there is a bit of cross here that would be helpful for us.

And our members are concerned about a couple things. We talked about it with respect to customer engagement and where that's going to go, so that leads us to where we are here, and a couple of questions I want to ask about, and I'll ask that BOMA 116 be brought up. There it is.

As you know, in shared services we're always looking for -- certainly our members are always looking for improvements to services that they provide internally or amongst themselves as in a manufacturing hub like the situation we have in our area and that value for money is always front of mind when we're dealing with different types of business situations.

Quite clearly, Hydro One stated it wants to move to a commercial orientation, and it's working that way so the shared services component's significant, and yesterday we talked about the fleet and outsourcing, and that was helpful.

The one area I just want to touch on now that I would like some clarification on because I think it would be helpful to us is if we look at 116, BOMA 116, BOMA asked:

"Does Hydro plan to have account managers for commercial and industrial customers? Which customers currently have dedicated or shared account managers?"

And this became kind of important because the response was the plan is to have offer account managers for large distribution accounts that are TX connected at 2-megawatt level peaking.

Our members cannot reach that point where it's sort of underneath that point, and we had talked about the importance of building a close relationship because of the nature of the type of just-in-time facilities that they are and power quality and service and all of that is huge. We talked about that.

So what I want to get to right now is, is there a plan to have account managers work with that group, especially if it is in a manufacturing hub, where it may as a group -- the hub might reach a 2-megawatt peak, but on their own individual companies won't necessarily, so I'm just trying to get some clarification around that.

And if that -- and I'm going to add another question to that: Would that be part of a shared exercise if the account managers for the 2-megawatt up TX connected customers, is there an opportunity in there? Sorry, kind of a long question.

MR. MERALI: No, thank you for your question. Hydro One is in the process of hiring some account managers for its large distribution customers. So we are actively moving towards a similar model that we have in transmission, where we have dedicated account managers by region and for specific companies to provide them that level of service and to be that single point of contact and be a conduit for all of their needs within Hydro One.

MR. McLEOD: So would that cover that group then, the C&I customers that are under the 2-megawatt peak?

MR. MERALI: It would cover customers that are under 2 megawatts, some of our larger distribution accounts. We're also -- you say C&I, and there is a distinction there. So we're --

MR. McLEOD: I'm thinking about the larger commercial industrial customers.

MR. MERALI: So we are in the process of hiring key account managers for those larger distribution accounts.

MR. McLEOD: And that will be on a regional basis, so would it be fair to say that there will be somebody dedicated, I guess, in the eastern zone or --

MR. MERALI: I personally don't know the specific regions, but I do know they're hiring decentralized, so it is not going to be folks just in Toronto, and they are going to have different regions across the province that they will serve.

MR. McLEOD: And those account managers, would that be a shared service? Because shared services are back office types of things, but we do know, and I think you mentioned it or somebody else in one of the other panels talked about a higher touch point with customers and would that shared service then be brought more upfront, front-line type of work?

MR. MERALI: I wouldn't describe it as a shared service to the extent Mr. Berardi's group provides a shared service for the company. From -- I guess the way I'd frame it is they will work for the customer-service department and they will report through the customer-service department. However, they will be for our end-use customers the single conduit into the company, so if the customer has an issue with planning or with work execution we -- that key account management group will be the single point of contact for the rest of the company.

MR. McLEOD: Okay. And I do know that Energy Board Staff had talked about the self-serve technology component of this too, so we're looking for something that's a little bit beyond the self-serve component of the exercise, so I think that's -- you've given me what I think we need to hear, so that's helpful.

Thank you, Mr. Chair, that's it.

MR. QUESNELLE: Great, thank you, Mr. McLeod. You're setting the tone. Mr. Pollock.

CROSS-EXAMINATION BY MR. POLLOCK:

MR. POLLOCK: Thank you, very much, Mr. Chair.

Good morning, witnesses. My name is Scott Pollock. I represent the Canadian Manufacturers & Exporters. I just have a couple of questions for you today about the outsourcing with Inergi, so if we could turn up Exhibit C1, tab 5, Schedule 1, page 2 of 11. And right, 3.1. Yup, you got it.

So since 2015 Hydro One has been outsourcing a variety of services to Inergi LP, correct?

MR. BERARDI: That's correct.

MR. POLLOCK: And in general, you break it down into two categories, back-office support and customer-service operations; is that correct?

MR. BERARDI: That's correct.

MR. POLLOCK: So the first question that I had substantively is on this paragraph, and I was wondering if you could clarify. So three lines down, where it starts "under the agreement". Do you see that? So it states:

> "Under the agreement Inergi provides Hydro One with back-office services and call-centre

services. The agreement for back-office services
expires on December 31st, 2019 and the agreement
for call-centre services expires on February
28th, 2018."

So stopping there, could you clarify if there is one agreement or multiple agreements?

MR. BERARDI: If you look down on item 3.2, if you scroll down to scope of work, that describes the scope of work, so if you look at the different types of work are comprised of -- and you'll see a little bit more detail where it says 1, technology services; 2, settlements; 3, supply chain services; 4, payroll; 5, finance and accounting; and 6, customer-service operations. So there are six statements of works.

MR. POLLOCK: Okay. And they're all sort of underneath a master agreement?

MR. BERARDI: That's correct.

MR. POLLOCK: Okay, thank you. So just to make sure that I have it in my mind, you break it out into project, specific work, and baseline services; is that right? And then the six that you described are for baseline services?

MR. BERARDI: The six that I've described are for base services, correct.

MR. POLLOCK: And customer-service operations is the same thing as call-centre operations, correct? There's a nomenclature change but ultimately that's the same bucket of work?

MR. MERALI: Correct, and I think terms are used interchangeably sometimes. Customer-service operations encompasses sort of the total scope of the customer-related work. Within that there are, I'll call them sub-domains, which include call centre, billing, credit and collections, distributed generation, and business sustainment and support.

MR. POLLOCK: Okay, thank you, and in your evidence I believe you state that call-centre spending has been above the Board-approved amount for 2015 through 2017; is that correct?

MR. MERALI: That is correct.

MR. POLLOCK: And you give several reasons for that, but one of the reasons, as I understand it, is you had a competitive process to source the customer operations and the price that you got out of that process was higher than you anticipated so it ended up in higher spending; is that correct?

MR. MERALI: That is correct.

MR. POLLOCK: Do you happen to know when you were doing the competitive process, was it lowest-bid wins? Or was there a value-for-money metric that was used?

MR. MERALI: Hydro One selected the lowest price.

MR. POLLOCK: Okay, and were bidders evaluated on the individual statement-of-work work streams and -- or were they evaluated as a whole?

MR. MERALI: They were evaluated at each individual work stream. I believe some consideration was given to the aggregate, like if somebody could provide services to multiple towers. I don't know if, Rob, you want to...

MR. BERARDI: Yes, just to add to Mr. Merali's comments, it was done on an individual statement of work basis. When we went through that process is -- we also had an opportunity to look at enterprise volume discounts when we did that, with one vendor.

MR. POLLOCK: Okay. So as part of the outsourcing agreement with Inergi, Hydro One has the option to benchmark costs that Inergi is charging them, correct?

MR. BERARDI: Yes, that's correct.

MR. POLLOCK: And if, through the benchmarking process, it's found that Inergi's costs are higher than the benchmark, they are contractually obligated to lower them to the benchmark amount, correct?

MR. BERARDI: That's my understanding.

MR. POLLOCK: And you have not -- or Hydro One has not elected to benchmark Inergi's fees, correct, thus far?

MR. FROST-HUNT: Hydro One undertook a benchmark of the IT portion of the Inergi agreement in 2016.

MR. POLLOCK: Thank you. So I guess to go to -- If we could we go to page 4 of the same exhibit, my understanding was that you hadn't yet -- and this was, I think, 2017 when this evidence came out, and I thought for IT you didn't because you had a cost performance metric that allowed you to sort of have a finger on the pulse of how IT was doing. So did that change?

MR. BERARDI: The IT benchmark that was undertaken was not specific to Inergi. It was a across the IT operation.

It was above and beyond the Inergi contract.

MR. POLLOCK: I see, okay. So I wanted to bring you to the actual focus of my questions, which is the customer service operations. So in this paragraph, you state that you haven't benchmarked yet and in the case of customer service operations, the current decision not to benchmark -- so I'm five lines down:

> "Hydro One's current decision not to benchmark is largely attributable to the status of customer service operations and IT SOWs, which financially make up the majority of the contract at approximately 88 percent. At this time, it is not practical to benchmark customer service operations as this SOW is near end-of-term."

So the way I read that statement is Hydro One thought that there might be some value to the benchmarking, but because the SOW was almost at the end of its term, by the time you got through the benchmarking process, there wouldn't really be much savings to be gained.

Is that a fair way to read that?

MR. MERALI: I can't speak to all of the towers, but with respect to the customer service portion, if my recollection is correct, the benchmarking exercise was conducted in 2014, then a retendering exercise happened in 2015.

So we had just gone to market, so we had sort of seen what the competitive landscape was for those operations, and given the customer service portion of the deal was three years, it didn't make sense to do benchmarking one year after just going to market.

MR. POLLOCK: So I guess that asked the question to me: Why include in the contract an ability to benchmark, if you had just gone to market and the length of the contract term was such that you really didn't think that it was worth exercising?

MR. BERARDI: Because within the contract, we also have options to extend. So if we exercise those options, that might be a good time to look at benchmarking at that time.

MR. POLLOCK: Do you mean in advance of the contract extension, or during the term of the contract extension?

MS. BERTUZZI: I'd say both. We could do it during the term, or we could do it is part of the full review of the option to extend.

MR. POLLOCK: Okay. And as I understand it, the customer service operations were in-sourced, is that correct, at the end of this SOW term?

MR. MERALI: That's correct.

MR. POLLOCK: So I would assume that as you were deciding whether or not to engage in in-sourcing, you did some sort of analysis in terms of what would it cost to continue with Inergi on those contract extensions, what would it cost to in-source, what would it cost to do a new process. Is that correct?

MR. MERALI: That is correct.

MR. POLLOCK: When you did that, did you do an analysis based on what the current un-benchmarked cost of Inergi was?

So when you were evaluating what was the Inergi cost, did you do it on what they were currently charging you, or did you attempt to do any sort of benchmarking or overall market?

MR. MERALI: We didn't do benchmarking. We evaluated what we were paying Inergi to perform the operations, and what our estimated cost of running the operation ourselves would be.

MR. POLLOCK: Okay, thank you, those are my questions.

MR. QUESNELLE: Thank you, Mr. Pollock. Mr. Woon?

CROSS-EXAMINATION BY MR. WOON:

MR. WOON: Thank you, Mr. Chair. Good morning to the panel. This is actually going to be in reference to panel 3. We had discussions with Mr. Merali.

If I could ask Exhibit I, tab 17, schedule OSEA 6, attachment 1 be brought up, page 14 of 18? And while that's being brought -- sorry, it's Exhibit I, tab 17, schedule OSEA 6, page 14 of 18 of the document, attachment 1.

While that's being brought up, just to give the Board some context, during panel 3, we were talking to Mr. Merali about CDM programs and how the company was meeting its ISO conservation targets. Mr. Merali undertook that he was going to find some more information and get back to us and give some evidence on this panel when he was returning.

MR. QUESNELLE: Thank you for that, Mr. Woon.

MR. WOON: Just to give a little bit context, the company undertook -- gave two undertakings which they filed last night. So my questions are going to be pretty brief, and I just have a few follow-up questions from those as well.

MR. QUESNELLE: Thank you.

MR. WOON: If you could pull up the attachment to that response, page 14 of 18 of this document. Thank you.

In the interim, I'm going to be bringing up the undertakings J4.6 and J4.7 that they filed last night, so you can have those in waiting in the interim.

So, Mr. Merali, we just talked a little bit about how the company was meeting its IESO conservation target and the company planned its CDM in response to one of our interrogatories.

On page 14 of 18 of the CDM plan, it discusses the pilot projects that the company was exploring, but didn't have approved by IESO at the time.

Several days ago, you indicated that you were going to be filing your business plan sometime in end of 2016, 2017. So one of the questions we had on panel 3 was just following up about the status of these pilot projects, do you have any further information you can provide at this time?

MR. MERALI: I do have some -- I do have some additional information on some of the pilots.

MR. WOON: So one of the pilots we were interested in is the second pilot on that table. It was the low income air source heat pump program.

Do you see that?

MR. MERALI: I can't actually see it on the screen, but I know what you're talking about.

MR. WOON: So when IESO prepared a report talking about potential use of heat pumps for residential use, they talked about air source heat pumps. But they also talked about ground source heat pumps. Are you familiar with ground source heat pumps?

MR. MERALI: To a certain extent.

MR. WOON: Are you aware, or do you know if the company considered offering ground source heat pumps to its customers?

MR. MERALI: I certainly know it's been discussed. I don't know, from a pilot perspective, if we ever deployed ground source heat pumps. I'd need to confirm that.

MR. WOON: You don't know why it was not considered to be offered in a pilot project?

MR. MERALI: I don't have information on that, unfortunately.

MR. WOON: So in terms of the status of the three pilot projects, can you give us any indication of where the company's at? Is it -- are they going to be offering these on a wire scale or are they going to be waiting until the next IESO plan to be approved?

MR. MERALI: Sure, so, I mean, with respect to the smart thermostat program -- are those the ones that you would like some update on?

MR. WOON: Yeah. All three, yeah.

MR. MERALI: So the latest information I have is the smart thermostat program was jointly funded through Conservation First Framework and GreenON, and with the cancellation of the GreenON programs, this program is expected to close on July 31st, 2018.

With respect to the air source heat pump program, the pilot's been completed and the results of the pilot are currently under evaluation.

With respect to the Whole Home program, the IESO has introduced -- essentially administered a Whole Home pilot, and Hydro One is awaiting the result of that pilot before determining whether to offer the program directly.

MR. WOON: And do you have any time lines on that?

MR. MERALI: Unfortunately I do not.

MR. WOON: In response to Undertaking J4.6 -- if we could have that brought up. Sorry, could I actually -- J4.7. So this was an undertaking that was provided by the company. We were just enquiring if the company was exploring any other provincial funding for CDM programs outside of what's been approved of IESO.

You referenced two projects that was considered under the GreenON. The follow-up is really just whether the company was still considering implementing these programs given the cancellation or the announcement of the cancellation of the GreenON program by the government-elect.

MR. MERALI: I do not believe a determination's been made if these programs can continue absent the GreenON funding.

MR. WOON: Those are all my questions, Mr. Chair. Thank you.

MR. QUESNELLE: Thank you, Mr. Woon. Mr. Rubenstein.

CROSS-EXAMINATION BY MR. RUBENSTEIN:

MR. RUBENSTEIN: Thank you very much, good morning, panel. I have a compendium. I'm not sure if the witness panel has it.

MR. QUESNELLE: Thank you.

MR. SIDLOFSKY: And that will be Exhibit K10.1.

EXHIBIT NO. K10.1: SEC CROSS-EXAMINATION COMPENDIUM FOR HONI PANEL 6.

MR. RUBENSTEIN: I'd like to begin by following up on some of the discussion that was had yesterday with Mr. Ladanyi regarding vehicle use and fleet services.

If we could turn to page 2 of the compendium, excerpts from yesterday's transcript. We see on that page there was a discussion, Mr. Berardi, that you had with Mr. Ladanyi, and he put it to you that there were more vehicles than operations staff. And I think you said there was about 70 to 100 vehicles now and there's about 6,000 operation staff. Did I have that correct?

MR. BERARDI: I did correct the transcript. We have -- I think Mr. Ladanyi's question was around how many field staff we had, and I corrected that to 7,000.

MR. RUBENSTEIN: All right, so there's about 7,000 field staff and about 7,200 vehicles now?

MR. BERARDI: Just to clarify it, to set context on the 7,200, I need to bring you to interrogatory I29, SEC 58, because I think Mr. Ladanyi was -- you know, I assume he was referring to the light and passenger, which we have 2,720, and just to clarify, those are passenger vehicles. Those are pickups and vans. And just to highlight, we do have approximately 2,600 of miscellaneous, which are not passengers. They are trailers, boats, chippers, pullers, and forklifts. So this is work equipment, as opposed to passenger vehicles.

MR. RUBENSTEIN: Okay then. That clears up what seemed like a significant amount of vehicles per person. Okay. Thank you very much.

So those are essentially -- one would need another vehicle to utilize it, or if it's a boat obviously it's not moving on the road.

MR. BERARDI: I'm sorry, Mr. Rubenstein, I could not hear you.

MR. RUBENSTEIN: So with respect to that list of vehicles, the miscellaneous category includes boats, so those are obviously not on a road. They wouldn't be used on a road primarily, obviously, and the others would need to be accompanying another vehicle, so if it's a trailer it's being pulled by another one of those vehicles?

MR. BERARDI: That's correct, the miscellaneous category of trailers, boats would require a larger vehicle and sometimes a heavy vehicle in the classification of the 1,413.

MR. RUBENSTEIN: So then I take it just doing the math there's about 2,500 of those vehicles, correct?

MR. BERARDI: The number for the heavy, Mr. Rubenstein, is 1,413.

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

And I also wanted to ask you: You were asked as well -- and if we could flip to page 3 at the bottom. There was discussion about usage of vehicles -- if employees could bring the vehicles home, and there was a discussion at the bottom of that page, beginning at line 25, where Mr. Ladanyi says:

"Is there -- do employees get charged for personal use of this vehicle?"

And your response is "they do", and then there is a discussion. Mr. Ladanyi says:

"And it becomes a benefit, or how are they charged?"

And your response is:

"Well, I believe there are CRA rules and taxable benefits. I'm not an expert in this area."

Do you see that?

MR. BERARDI: Yes, I do.

MR. RUBENSTEIN: So I take that that they're not -- would you agree with me that being considered a taxable benefit is different than them being charged for use of the personal vehicle?

MR. BERARDI: That's correct. Yeah, just to clarify, they are not being charged. There is, under CRA, Canadian

Revenue Agency, there are rules with respect to passenger vehicles and personal use, so for instance -- and there's rules around temporary work headquarters and things like that, and we follow those CRA rules.

MR. RUBENSTEIN: Sure, and that determines how much payable in tax from the employee to the CRA. You are not receiving any of that money.

MR. BERARDI: That's my understanding.

MR. RUBENSTEIN: So then it is correct to say they are not charged.

MR. BERARDI: It is correct to say that they are -- the employees are not charged.

MR. RUBENSTEIN: And I think there was some further discussion. Is there a policy about personal use? Is there a formal policy about personal use of vehicles? Or is it ad hoc?

MR. BERARDI: I'd say it's not ad hoc. We do have operating procedures with respect to transportation and work equipment.

MR. RUBENSTEIN: Is there a formal written policy or...

MR. BERARDI: Just to clarify, you keep calling it a policy. We do have operating procedures. I just wanted to provide that clarity. It is not a policy, but we do have operating procedures in that sense.

MR. RUBENSTEIN: Are there formal written operating procedures with respect to when an employee may take a vehicle home?

MR. BERARDI: We do have those, correct.

MR. RUBENSTEIN: And does that require sign-off by a supervisor or a manager or someone superior to the employee?

MR. BERARDI: It requires a sign-off based on the function that employee is actually undertaking, so, for instance, if we have a regional line maintainer that's supporting -- you know, Mr. Bowness talked about the execution of the distribution work program, so if they would need that piece of transportation and work equipment to perform their function, that would go through their supervisor to approve that allocation of that piece of transportation and work equipment.

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

I want to turn to the integrated systems operations centre, if you can turn -- and this is at page 5. This is -- or page 7 is probably a better view. This is the updated ISD for this project that was provided in response to Staff 173; do I have that correct? So we're looking at here...

MR. IRVINE: That is correct.

MR. RUBENSTEIN: And if we turn to page 9 of that ISD, this is simply an excerpt of that.

My understanding is that the distribution allocated portion to be spent during the planned term is $61.3 million and the total project cost, the distributed allocated portion, is $69.3 million, correct?

MR. IRVINE: That is correct.

MR. RUBENSTEIN: And my understanding, just looking at page 16, the proposed total cost for the project, so when allocated to both distribution and transmission, is $138.4 million? Do you see that at the bottom of the page, where it says "proposed ISO see cost comparison"? Do I have that, that the full cost of the project is $138.4 million?

MR. IRVINE: That is correct.

MR. RUBENSTEIN: So in terms of individual investments that relate to this application, this has to be one of the largest. Would you agree with me on that?

MR. IRVINE: It is a larger application at 138.4 total.

MR. RUBENSTEIN: And as I understand the evolution of the project, it was originally presented in the EB-2013-0416 application as originally simply the back-up operations centre at a cost of about $18 million. Do I have that correct?

MR. IRVINE: For the distribution portion, the total cost given the allocation at that time was estimated at $40 million.

MR. RUBENSTEIN: And then, as I understand, that has changed from that application to this application, where its contains more than just the back-up operation centre, but also a data centre, certain security operations capabilities and other components. Do I have that broadly correct?

MR. IRVINE: Yes, it's evolved to include, as you note, a data centre, also to include a back-up facility for what we call the integrated telecom management centre, control centre, and the security component both for physical security monitoring on a 24/7 basis and for compute space for security monitoring, which is the cyber aspect of security.

MR. RUBENSTEIN: So it's more than -- so this project has more than just -- you're obviously constructing a building for this, but there is a significant information technology portion that will be within the building?

MR. IRVINE: Yes, that was done in order to leverage the critical facilities that are required by the company, rather than building separate facilities, integrated into one to share common components of that facility.

MR. RUBENSTEIN: When you originally filed this project with the expanded scope, and I'm looking at page 18 of the compendium, this is the original ISD.

If we can flip over to page 20 of the compendium, my understanding is that the project cost in the planned term was 56.4 million, the distribution component.

Then the total project cost was $64.4 million for the distribution component, correct?

MR. IRVINE: That is correct.

MR. RUBENSTEIN: And then the total cost for the project, we see that on page 21, was 130 million, correct?

MR. IRVINE: That is correct.

MR. RUBENSTEIN: So it increased by $8.4 million from the time of filing until, I believe, December of 2017?

MR. IRVINE: There was an updated filing, which should have been February of 2018, as per Staff 173.

MR. RUBENSTEIN: So the project costs have increased within that...

MR. IRVINE: That was the result of performing the detailed design phase of the project, where we finalized the engineering designs, all the requirements, the costing, and it gave us an accurate estimate of the 138.4.

MR. RUBENSTEIN: And my understanding is the facility was going -- is planned to be located in Orillia. Do I have that correct?

MR. IRVINE: That is correct.

MR. RUBENSTEIN: And my understanding that this is linked to -- the location is linked to your -- or what was your MAADs application with respect to Orillia Power, correct?

MR. IRVINE: These were two initiatives that were operating what I would call in parallel.

The ISOC project is not predicated on the Orillia LDC.

MR. RUBIN: I understand you were going to do the work regardless. But the location was contingent on your application to purchase Orillia Power. Am I correct on that?

MR. IRVINE: Right. So as for the location, and if we were to go to interrogatory SEC 61, I believe it is, you can see where we did an analysis of site locations for the ISOC facility. So we look looked at a number of variables giving a base set of criteria.

In that situation, we used an organization called Andrew Thompson & Associates to look at what was available within that criteria, Orillia being one of the locations.

MR. RUBENSTEIN: No, I understand, but my question is specific. What is the relationship between that application and this facility?

As I understand it, the Board has rejected the purchase. So is the facility still going to be in Orillia?

MR. IRVINE: So regardless of the purchase being rejected, the facility will still be moving forward.

MR. RUBENSTEIN: In Orillia?

MR. IRVINE: In Orillia.

MR. RUBENSTEIN: So the facility, regardless, is going to happen in Orillia.

MR. IRVINE: Correct.

MR. RUBENSTEIN: At the location...

MR. IRVINE: When we did our study on location, Orillia came up as the top location.

It's also in GP-18, the last page, page 24, I believe, which shows a ranking of locations that we looked at for our facility.

MR. NETTLETON: Let's just wait for the exhibits to come up. Mr. Irvine, can you provide the evidence referencing that?

MR. IRVINE: Sure. Lets you use Staff 173, so we are using the most current ISD.

MR. NETTLETON: If we can just wait to have that brought up, sir. Thank you.

MR. RUBENSTEIN: I think you are looking at page 17 of my compendium. Is that what you want to look at?

MR. IRVINE: If you go to GP-18 in that IR, it should be -- once you're on GP-18, page 24.

If we want to go to -- so we should have in front of us page 24 of GP-18, which identifies the ranking on site assessment that we performed as part of this project.

As you can see, for the top ranking, the City of Orillia. The City of Orillia was chosen for a number of reasons, being proximity, access, municipal availability of water, sewer, that type of thing. And land cost was also a consideration, and surrounding infrastructure, hotels, those kind of things.

MR. RUBIN: I just want to confirm. So if anyone says that this ISOC facility will only be constructed in Orillia if the MAADs application between Hydro One and Orillia Power is approved, it's incorrect?

MR. IRVINE: That's correct.

MR. RUBENSTEIN: It's going to be there regardless?

MR. IRVINE: That's correct.

MR. RUBENSTEIN: In my understanding, the facility has an in-service date of 2020. Is that correct?

MR. IRVINE: Q3 of 2020 is what shows in that updated ISD.

MR. RUBENSTEIN: And is that still the plan?

MR. IRVINE: There is risk in that date, and that comes from -- we're awaiting outcome of this rate filing. Dependent on when we receive that answer, it could impact on that in-service date.

MR. RUBENSTEIN: Well, can we turn to page 27 of the compendium? This is from Staff 174, where you have provided the schedules; do you see that on the bottom of the page?

MR. IRVINE: Yes.

MR. RUBENSTEIN: At the time at least? Can I ask you: Where are you on this schedule?

MR. IRVINE: Right now, where we are on the schedule is we have -- we are at the RFP release, so the request for proposal was actually released yesterday.

MR. RUBENSTEIN: So where it says April 2018?

MR. IRVINE: Yeah, between April and June, the pre-qualification that was highlighted for April has been completed. We are now in the official process of the request for proposal.

MR. RUBENSTEIN: And is it your view that you will begin site mobilization in September 2018?

MR. IRVINE: That will depend on the outcome of this rate filing.

MR. RUBENSTEIN: Well, let me ask you this: What is the date from the decision in this case -- what -- so you get the decision in this case; then where do we start again on the schedule?

MR. IRVINE: Once -- while the decision is being worked on, where we are is we will complete the request for proposal, finalize vendor, and once we have the final approval, then we can go straight into the construction phase. Construction phase, approximately 18 months in duration, depending on start.

MR. RUBENSTEIN: So is that site mobilization?

MR. IRVINE: Yes.

MR. RUBENSTEIN: That you're speaking of? Have you completed a business case for the facility yet?

MR. IRVINE: The business case, we do not have an approved business case at this time. What I will say is the business case is a compilation of what is contained within GP-18, so all the information that would be in the business case is included in ISD GP-18.

MR. RUBENSTEIN: So you are going out for RFP now and you don't even have a business case for the proposal?

MR. BERARDI: Mr. Rubenstein, just to clarify, the RFP process that we are going through is not a commitment for us to award the contract; it is, we're running through a competitive process. We will get to the point where we will have a proponent that we will be negotiating a commercial terms and conditions. At that point we would do a pause and do a business case review, because we would have, you know, that point we would have the proponent in -- selected.

MR. RUBENSTEIN: So you are asking this Board to approve a project that on the distribution side alone is about $70 million, that you are going to begin essentially construction as soon as the Board's decision or very -- after the Board's decision is released, and you don't even have a business case at this point for that project; am I understanding that correctly?

MR. IRVINE: So in this there is a draft business case. It has not been signed. We are waiting to secure and ensure we had the funding before final approval.

MR. RUBENSTEIN: And you were not going to get the funding until you have the decision?

MR. IRVINE: That is correct.

MR. RUBENSTEIN: Can I ask you to turn to page 22 of the compendium. This is response to SEC 61, so in part B we ask you:

"Please provide a full business case for this project."

And your response was:

"The business case is still being finalized and will be provided once it is approved."

So I take it that that could never have happened within the context of the Board proceeding?

MR. IRVINE: The final approval for the business case is slated to occur once the decision from the OEB...

MR. RUBENSTEIN: No, so I'm reading this response, and I would take it then I should have interpreted this as, it could never be actually provided in the context of the proceeding, because the business case won't happen until the decision?

MR. IRVINE: As the -- it indicates, that was to be provided once the...

MR. NETTLETON: Mr. Rubenstein, I mean, in all fairness, the answer to the response says "and will be provided once it is approved". The provision of the business case once it is approved could happen in many different ways. It could happen by way of conditions that the Board imposes. It could be through other, you know, other commitments that are made by Hydro One in this proceeding.

MR. RUBENSTEIN: I'm not disagreeing. All I'm just confirming that I had should have read this, hearing the testimony today, as it cannot happen during the proceeding. Just confirming that.

MR. NETTLETON: The evidentiary portion of the hearing?

MR. RUBENSTEIN: Well, at least until the date of the decision. I don't know what happens after the decision, but I guess the hearing's over, usually. That's how I...

MR. NETTLETON: I'm not sure what the date of this interrogatory was. If we could go back up -- but, I mean, at the time that this interrogatory was prepared...

MR. QUESNELLE: I think Mr. Rubenstein's question -- and I have the same one -- I think Mr. Irvine suggested that the business case will not be completed until they have secured funding, and it is this decision which will provide them with that funding, the decision from this hearing.

So Mr. Rubenstein's time line -- the obvious time line on that is it can't be provided until the completion of this hearing and a decision being rendered.

MR. NETTLETON: But I think, Mr. Chairman, that the point is, is that until we know what the Board rules on this investment and the funding of this investment, it's going to impact the content and what the business case says.

MR. QUESNELLE: I have to admit, Mr. Nettleton, it is a very odd series of events that the business case is -- rides on whether or not this Board approves it or we -- wouldn't we then have to see the business case? It's almost putting us in the position of the company. I don't -- wouldn't the company come to us and ask us for funding based on a business case?

MR. NETTLETON: I think the challenge here, Mr. Chairman, is that, as the witnesses have indicated, they are going through an RFP process. They are expecting to select a vendor. The selection of that vendor is going to require negotiations. The negotiations out of that is then going to feed into the business case and inform what the actual numbers are for the business case. The business case, in my understanding of it, the business case is equivalent to an authorization for expenditure. It is a release of funds to actually fund the project. It happens at the end.

MR. QUESNELLE: Understood, but does the need form part of the business case?

MR. NETTLETON: I think it does, sir, and I think that's what the investment summary document is, is that it's explaining the need, and that's why the investment summary document has been included for your review for purposes of your decision that's taken with respect to these investments.

MR. QUESNELLE: I guess where we're at odds is the typical scope of the business case, the terminology. I take your point. Okay.

MR. RUBENSTEIN: Could I ask you to then turn to -- and this is not in the compendium, just as we have this discussion. Could I ask you to turn to JT3.1, Q7. And if we can turn to attachment 1.

And so I understand this document to be the program and project approval procedure; is that correct? That's what I'm looking at here?

MR. BERARDI: That's correct.

MR. RUBENSTEIN: And could I ask you to turn to page 3. And I'm reading at 1.4. It starts with:

> "K, All projects are subject to management review and approval. Review and approval is documented by the planning unit within a business cause and approved in accordance with the authority limits in the EAR."

Do you see that?

MR. BERARDI: Yes.

MR. RUBENSTEIN: And if you go down to M, it says:

> "A single business case may be utilized to approve any combination of development, long lead, partial, and full-approval projects."

Do you see that?

MR. BERARDI: Yes.

MR. RUBENSTEIN: And it says:

"The business case must include the approval of total and net expenditures, the need for the investment scope, expected result, other alternatives, regulatory implication, and potential material risks."

Do you see that?

MR. BERARDI: Yes.

MR. RUBENSTEIN: And it is the last part I'm interested in, being what I -- the ISD -- the difference between what I see is in ISD and what I would assume would to be in the business case, talking about material risks and how you are going to mitigate them in the plans. Do you agree with that?

MR. IRVINE: They would be identified. There are some risks identified in the ISD.

MR. RUBENSTEIN: But they won't be to the scope that we would see in a business case, correct?

MR. IRVINE: The business case is generally a more refined, concise document than the ISD. So the ISD will actually have more information than what the business case itself would.

MR. RUBENSTEIN: So I wouldn't see more information about material risks and how you're going to manage what is essentially $140 million project in the business case?

MR. IRVINE: Essentially, unless there are some other mitigating circumstances that come up, the risks identified in the ISD should be similar to that which would be in the business case.

MR. RUBENSTEIN: Since you haven't even completed -- and I would assume that after the RFP process, where you've negotiated a contract which, in many ways, allocates risk between the various -- the constructor of the building and Hydro One, you wouldn't have a more refined sense of what the risks are and how to manage the specific risks that may come from the project?

MR. IRVINE: Yes. At that point, if there's any risks identified, we could refine that to include those risks at that point with the business case.

MR. RUBENSTEIN: And my understanding from a previous panel, since this is a project over $5 million, the contingency amount built-in is based on an individual assessment of the risk of the project. Do I have that correct?

MR. IRVINE: Yes.

MR. RUBENSTEIN: And since we're not at that point, we don't know what -- that contingency hasn't been refined because you don't know the full -- how to allocate the risk, all those elements that would allow you to...

MR. IRVINE: We have looked at contingency in this project.

MR. RUBENSTEIN: What is the contingency for this project?

MR. IRVINE: It is approximately $11 million.

MR. RUBENSTEIN: Could I ask you to turn now to another area? If I could turn to page 20, I want to ask about the Gartner IT budget assessment. It's page 28 of the compendium.

Just so I understand at a high level, this was a study that was undertaken by Hydro One, not for regulatory purposes, but four your own assessment of your IT budget compared to peers, correct?

MR. FROST-HUNT: We were developing a renewed IT strategy beginning in 2016, and this was done as an input to that strategy, that's correct.

MR. RUBENSTEIN: And at a highest level, what it does is it benchmarks your IT costs against peer companies?

MR. FROST-HUNT: That's correct.

MR. RUBENSTEIN: And it was done in 2016, but based on 2015 data?

MR. FROST-HUNT: Yes, sir.

MR. RUBENSTEIN: And what, in your view, should we take away at a high level from the study for benchmarking?

MR. FROST-HUNT: That we compare favourably with our industry peers, in terms of our overall spend. However, there were some great findings in that report.

When we looked at our back-up and storage, when we looked at our environment servers and databases, when we looked at our capitalization threshold, and we looked at potential overlap of labour functions between us and our outsourcer, those were all derived findings from the benchmark study that informed our strategy.

MR. RUBENSTEIN: If we could turn to page 29 of the compendium, this is the summary of the metrics from the report. And when you say you compared favourably compared to your peers in terms of IT spending, I look at two numbers, right.

The first is the IT spending capital and operations, and I see you come in about $5 million less. Do you see that?

MR. FROST-HUNT: Yes, sir.

MR. RUBENSTEIN: And then I look at IT spend as a percentage of revenue, and you're slightly below the peer average at 3 percent versus 3.1. Is that what you're speaking of?

MR. FROST-HUNT: That's correct.

MR. RUBENSTEIN: If we could turn to page 37 of the compendium, this is a comparison of your -- on the capital side, as I take it, distribution allocated spending for certain corporate and common costs, but I'm more interested in the information technology line. Do I have that correct?

MR. FROST-HUNT: Yes, sir, this table is from June 2017, and there have been updates subsequent.

MR. RUBENSTEIN: Have there been updates to the IT line?

MR. FROST-HUNT: Our forecast has been reduced.

MR. RUBENSTEIN: This is historical numbers?

MR. FROST-HUNT: We have actuals for 2017, which are provided in SEC 38, I believe.

MR. RUBENSTEIN: Is it a material change from the...

MR. FROST-HUNT: It is not a material change.

MR. RUBIN: The specific number is not the -- what I'm looking at here.

So what I see is in 2015, the year the study was undertaken, your actuals were under 39 million in IT spending?

MR. FROST-HUNT: I'm sorry, Mr. Rubenstein, I am having a little trouble hearing you.

MR. RUBENSTEIN: My apologies. What I'm looking at is if we took 2015, and I'm looking at the capital spending, you actually spent -- that's been allocated to the distribution business is about 30.9 million. That's what I'm reading here?

MR. FROST-HUNT: Yes, that's correct.

MR. RUBENSTEIN: Do you just know, just as sort of a rough estimate, what the allocation between distribution and the rest of the business are with respect to capital?

MR. FROST-HUNT I'm not an expert on the T&D split, but I think a 50-50 rough, subject to check.

MR. RUBENSTEIN: No, that's fine.

MR. FROST-HUNT: Mr. Rubenstein, the costs can vary too, whether they are common investments versus customer only investments.

MR. RUBENSTEIN: So what I see here is that in 2016, you went from 30.9 million to 58.8 million, correct?

MR. FROST-HUNT: Yes, that's correct.

MR. RUBENSTEIN: And then there was -- again 2017 compared to 2015, there was also an increase?

MR. FROST-HUNT: Yes, that's correct.

MR. RUBENSTEIN: So if we go back to the study, looking at 2015 numbers, where you were about $5 million overall compared to the benchmark, and here we see in 2016 you're 20.8 and that's just your distribution component.

Is 2015 really good reflection to do a benchmarking study? It seems you're increasing afterwards.

MR. FROST-HUNT: Sir, the benchmark primarily informed the IT operations, which is a sustainment activity, both OM&A and capital versus a one-time capital investment which is a project in nature.

MR. RUBENSTEIN: Well, I want to go back to what you said we should take away, and that is you benchmarked favourably. Can we really make that assessment now, since after 2015, you saw an increase in capital?

And I can take you to the OM&A numbers that are located on page 39, where they slightly -- you know, they go up, but not very much. So we're not seeing a corresponding reduction there.

MR. FROST-HUNT: The majority of the OM&A spend is sustainment in nature. However, there is a portion of OM&A per every capital dollar spent.

MR. RUBENSTEIN: No, I understand. My point was -- I understood what you said we should take away from the study is that you benchmarked favourably, and this was based on 2015 numbers.

What I see in 2016, 2017 is your big increases in the capital portion, and if OM&A stays about flat, so there's an offsetting reduction in OM&A, can we really say that you

benchmarked favourably?
     MR. FROST-HUNT: My interpretation of the report is that the IT sustainment, the IT operations, benchmarks favourably. We do have a variable investment -- capital investment program based on the project needs in-year, and that is the variability you are seeing capital year to capital year.
     MR. RUBENSTEIN: But even the forecast period we're seeing increases versus 2015, more than would be inflationary increases from 2015.
     MR. FROST-HUNT: Those are one-time capital Investments, not IT sustainment and operations.
     MR. RUBENSTEIN: And does the benchmarking report for the peer groups separate out their sustaining...
     MR. FROST-HUNT: I'm sorry, could you repeat that question?
     MR. RUBENSTEIN: I know you are talking about how these are one-time investments. But could the same not be said for the peer group in 2015?
     MR. FROST-HUNT: If you could explain the point you are trying to make, please.
     MR. RUBENSTEIN: I'm asking you a question.
     DR. ELSAYED: Maybe I can ask a clarifying question. Did the benchmark only look at OM&A, or capital as well?
     MR. FROST-HUNT: It primarily looked at the sustainment and operations.
     DR. ELSAYED: But is this a combination of OM&A and capital?

MR. FROST-HUNT: There is a combination of OM&A per every capital spent, but it is a small portion.

DR. ELSAYED: So it is mostly OM&A then?

MR. FROST-HUNT: It is mostly the sustainment capital and OM&A, and we do have a combination of capital and OM&A.

MR. RUBENSTEIN: I want to go back. If we could go back to page 29, because I'm not sure what you're saying here with respect to this.

My understanding of what this did was it took your entire capital and operating IT budget in 2015 and compared it to other's entire capital and operation budget; do I -- is that incorrect?

MR. FROST-HUNT: No, that is correct.

MR. RUBENSTEIN: So it doesn't distinguish between sustaining new projects, what other characterization; it is the entire budget.

MR. FROST-HUNT: Yes, it includes the capital project spend as well.

MR. RUBENSTEIN: So going back to what I said, you said, well, as I took it, your response to my question about, is it a good -- 2015 a good base, looking at where we're spending, you said, Well, we're spending on one-time projects, and so that's not captured, but my -- and I put to you, can't we say the same thing about the peers? They may as well be spending on one-time projects as well. We don't know.

MR. FROST-HUNT: I appreciate the effort to clarify. I think I understand the question now, Mr. Rubenstein.

While my opening comments did say that we benchmarked favourably, the primary focus of this activity was on the sustainment operation of IT, so while we did have discrete capital project spend, the findings that I mentioned were all sustainment in nature, so our focus was on the IT operation, right, my area of accountability, not the individual projects that we deliver for the lines of business.

So the findings that I identified in terms of backup and storage, environment, optimization, capitalization thresholds, and org change, those are all sustainment in nature.

MR. RUBENSTEIN: So then to clarify, we can't take away from this study, as you said, in a general sense, that Hydro One benchmarks favourably? We don't know.

MR. FROST-HUNT: I don't agree with that characterization.

MR. RUBENSTEIN: Well, you just qualified your own characterization on it, so I'm just trying to make sure I understand. Maybe I misheard what you were saying. Can we say --

MR. NETTLETON: Mr. Chairman, I mean, the numbers are what they are. This is a report of a third-party consultant. Again, the consultant isn't here to explain the results. The consultant would need to be here to explain how Hydro One compares against the peer group.

The statistics show on this page of the compendium, page 29 of 41, that shows that the percentage of IT spend capital is 28 percent versus the peer average of 40 percent.

So, I mean, that's the capital number, and then the operating number is shown to be 72 percent versus 60, so it's actually trending higher than the peer average, so I'm just -- I'm mindful that this witness can't speak to these statistics, other than what they say on the face of the record, and I object to the questions that relate to the peer and what the -- how the expert went through the peer study process.

MR. QUESNELLE: What I heard the witnesses say is that they compared favourably. Mr. Rubenstein took them to exact lines as you just have yourself, pointed out some favourable numbers, and then asked: So what do we see from the subsequent years where the capital spending was much higher? How can we say that there -- and I think that's a fair question, and the answer has been confusing.

MR. FROST-HUNT: If I could attempt to clarify. You are seeing declining costs in the IT OM&A as a result of the strategy that was developed through this benchmark input, and that is provided in the updated OM&A forecast.

We also, for individual projects, we do have a competitive RFP process, so we are delivering projects as competitively as we can get from the marketplace.

Rubenstein -- Mr. Rubenstein, perhaps your point is if project A is investing more capital, delivering projects, how can it be compared to company B that is not investing, and draw conclusions from that, but I can tell you that from the operating side we did have findings here that we've incorporated into our go-forward strategy and we are reducing our operating costs and each individual program is going through a public RFP process, and we are getting the best possible solution from the marketplace.

MR. RUBENSTEIN: And I understand one of the findings of the study -- and I think you briefly mentioned it at the beginning -- was that the -- it found that your capital IT spending as a percentage was lower than -- of the total spend versus the peers, and that was based on the fact that you did not capitalize IT spending that was below a $2 million threshold.

So is that one of my understandings?

MR. FROST-HUNT: We did at that time have a $2 million capitalization threshold; that is correct.

MR. RUBENSTEIN: And now you don't?

MR. FROST-HUNT: Now the capitalization threshold as of January 1st, 2018 is 500,000.

MR. RUBENSTEIN: What is the relevance of that from the ratepayer's perspective? I understand that that's -- you know, in the -- I understand peer groups may have that -- may do that differently and that may change the split between capital and operating, but I'm just trying to understand from a ratepayer's point of view why that change is really relevant.

MR. FROST-HUNT: I don't think it will create a material change for ratepayers. What it does, though, is it speeds up the delivery of IT enhancements. Previously with the $2 million threshold we would collect like investments until we felt we could put together a business case, and we would capitalize that work at the $2 million mark, and that collecting of work would take time.

So these would be non-urgent enhancements to existing solutions. With the lower capitalization threshold we're able to advance on that work in a shorter period of time.

It's -- we don't view it as a material change to our forecast, but it will change the pacing and the delivery of the work.

MR. RUBENSTEIN: So you will spend more on capital quicker?

MR. FROST-HUNT: We'll spend the same on capital in shorter pieces, in smaller pieces.

MR. RUBENSTEIN: And you'd agree with me from a customer point of view, when you capitalize something, you capitalize more, that costs ratepayers in the long-term more money since it attracts a return on capital.

MR. FROST-HUNT: Mr. Rubenstein, you are characterizing this as a shift, perhaps, or spending more capital, where I put it to you that it's the same spend; we just don't have to bundle like investments together to meet the materiality threshold.

MR. RUBENSTEIN: I'm not saying it's a -- I understand it's a shift, but you recognize from a regulatory point of view shifting from OM&A to capital has an effect?

MR. FROST-HUNT: Sir, we would continue to spend the same amount of capital. Instead of doing it in $2 million deliveries we are now doing it in 500K deliveries.

MR. RUBENSTEIN: So I'm unclear. I understood that the criticism -- or I shouldn't say criticism, the finding in the report was that your percentage of IT spending is lower than your peers because of this capitalization policy, and I took it that means you just have more in OM&A than you have in capital because -- and your response to me seems to be, no, that's not the case. We just wait for things to build up to 2 million and then we -- then it hits that threshold. But if that's the case, then that finding would not occur. You're just --

MR. FROST-HUNT: The finding was that our threshold of capitalization was significantly different than our peers, and the impact to the ratepayer was that we would bundle like work together prior to release. And that is how we interpreted the finding.

MR. RUBENSTEIN: Could I ask you to turn now, flip over and go back to page 37.

MR. FROST-HUNT: Again, sir, this table's been updated.

MR. RUBENSTEIN: Okay, well, then maybe we can then pull up the -- for ease if we could pull up the updated -- if I could ask that the -- which is the undertaking -- sorry, which is the updated table, you said?

MR. FROST-HUNT: SEC 38.

MR. RUBENSTEIN: If we could have that pulled up on the screen. Maybe that's easier.

MR. FROST-HUNT: I think you should go to the next page, scroll down, and you will see -- there we go.

MR. RUBENSTEIN: So what I see on this table -- and I guess it's hard, since we don't see the top, but I see what -- as compared to what was approved in 2015, 2016, and 2017, you have significantly overspent in every single of those years; is that correct?

MR. FROST-HUNT: That is correct.

MR. RUBENSTEIN: Can you explain to me why that is appropriate?

MR. FROST-HUNT: I believe the redirection process was discussed at length by the previous panel.

These IT investments that created the general plant overspend were discrete investments that had -- that enabled customer capabilities that had productivity benefits that were tabled to the redirection committee. And the company ultimately chose to advance on those initiatives.

MR. RUBENSTEIN: So with respect to the 2018 to 2022 forecasts, are they accurate?

MR. FROST-HUNT: We do have an annual investment planning process that is quite thorough. We start by collecting candidate investments. We go through internal challenge sessions, and we do take it to the board for approval at the end of the year.

We continue to do that. We are actually just collecting candidate investments now. We do have that annual planning process which is rigorous. And then in-year, as new opportunities emerge, they are tabled through that redirection process.

MR. RUBENSTEIN: No, I understand the process. There was a lot of discussion on the last panel.

But my question is: as of we're sitting here today, is that 2018 to 2022 information technology capital budget accurate? Or are we going to be back here in 2022 looking at how your budget is not really close to what you had -- what you are seeking to have approved?

MR. FROST-HUNT: Yes, Mr. Rubenstein, the forecast is accurate and we are committing to the significant productivity initiatives enabled by that investment plan.

MR. RUBENSTEIN: You are going to do the work that you say you are doing to do the work?

MR. FROST-HUNT: Yes, sir.

MR. RUBENSTEIN: Could I ask you to turn to JT7.1 -- sorry, if I could ask you to turn to page 41. This is from JT7.1.

To put this in context, this is materials that were provided to a steering committee from the good to great initiative. I'd ask you to flip to page 41, which is page 58.

MR. FROST-HUNT: Mr. Rubenstein, I am having a really hard time hearing you. I apologize.

MR. RUBENSTEIN: No problem. Can you hear me better now?

MR. FROST-HUNT: Yes.

MR. RUBENSTEIN: So this is a presentation from the first steering committee meeting for the good to great initiative, and this is excerpt from page 58 of that, on page 41 of the compendium.

And what I take away from this slide is there's a table that shows for -- with respect to corporate effectiveness, it breaks down operations and corporate functions and then it -- on the vertical side. And on the horizontal side, it breaks down the three categories, spans and layers, FTE benchmarking and effectiveness and diagnostic, and I take away that the green checkmark means done, and the others don't.

And I'm interested in FTE benchmarking for corporate functions, and it says under the heading: "Conduct benchmarking of support ratios to identify focus areas of efficiency assessment," and I see a checkmark.

So I that it that for the corporate function, Hydro One, at least at the time of this report -- this presentation in 2016, had conducted benchmarking of support ratios to identify focus areas for efficiency assessment. Did that occur?

MR. BERARDI: Mr. Rubenstein, we were not involved in this work stream. So if you had -- there was eight work streams that we provided as evidence. We can talk to those work streams that we were accountable for. So for instance, I can talk to procurement. But this work stream was not one that we are accountable for, nor can we speak to.

MR. RUBENSTEIN: I recognize this isn't your presentation, but you are responsible -- IT, the shared service organization are part of the corporate functions, generally?

MR. BERARDI: That's correct, Mr. Rubenstein. However, in this context, it is -- this includes HR, finance. It includes tax, it includes all these other groups that -- again, you know, this is where we're having a difficult time relating your question to this presentation.

MR. RUBENSTEIN: Let me ask you in your areas of scopes of knowledge. Were you aware -- in the areas that you folks are responsible for, were you aware of benchmarking of the support ratios in your areas?

MR. BERARDI: I was not.

MR. FROST-HUNT: I was not.

MR. IRVINE: I was not.

MR. RUBENSTEIN: Could have I ask for an undertaking to explain what exactly may or may not have occurred here, because it seems that something was done in part of your area, but it's not clear what this is related to.

MR. NETTLETON: Mr. Chairman, I object to the undertaking on the basis that what Mr. Rubenstein is indirectly trying to discover here is exactly what was ruled on by this panel yesterday and, in particular, Hydro One's ongoing labour strategy.

That was the subject matter of the ruling, and the reason why information was kept confidential and commercially sensitive.

The issue that he is touching on now is, in my view, going exactly to inquiry and discovery on that point.

MR. QUESNELLE: Mr. Rubenstein?

MR. RUBENSTEIN: I'm not sure I agree with that. There was discussion yesterday -- I can't recall exactly what the -- who had asked the question. But there was some discussion yesterday about doing staffing benchmarking against operations, and there was a discussion that it hadn't been done.

As well I noticed -- I had requested in interrogatory SEC 3 for benchmarking reports and analysis that had been conducted in 2014, and I haven't seen anything like this. So maybe it falls within something, maybe it's something that I don't understand that's not related.

It's just that it seems to go directly to -- my friend says this is labour strategy. I mean, the staffing and FTE benchmarking seems to be -- normally the Board looks at it and I'm not sure -- maybe this is -- I don't know what the context of this is. It may fall within what mister -- it may have been some informal benchmarking that Mr. Nettleton is talking about that falls within the scope. I don't know. But it seems to me it seems a little broader than that.

MR. NETTLETON: And quite frankly, sir, I don't know either. I don't have line of site on this information. All I see is what this presentation says.

But what I know is -- when we talk about FTE benchmarking, I know that there is evidence on this record. I know that Hydro One made multiple attempts and provided additional studies on benchmarking that have been filed in this proceeding. I don't know how that evidence relates to the time period that this presentation was given of February 2016, and whether the checkmark or the X as shown on this, or depicted on this slide, how it correlates to the Mercer study and the Willis Towers Watson studies that were subsequently filed in this proceeding. I just don't know.

If that is the question that my friend is asking, that is something that we can certainly get back to him with, in terms of relating the Willis Towers Watson and the Mercer Study, to see whether that is consistent with what's represented here.

MR. RUBENSTEIN: Those to me, those are a different type. My understanding of those studies are compensation study dollars are being paid to employees. This is different. As I -- maybe I am incorrect. I read FTE benchmarking and the comment underneath, "Conduct benchmarking to support ratios to focus areas of efficiency assessment", it's an assessment of -- it's a staffing assessment of how many individuals are needed. And I think that seems to me relevant.

In SEC 3, we had asked for benchmarking studies and analysis that were conducted before 2014 and onwards.

MR. QUESNELLE: I think the effect on this analysis that has been completed, as you saw in the redacted versions and as described by Hydro One, that some of the redactions were about the strategy and on the go forward basis.

And the FTE benchmarking -- well, to the extent that it's related to that, I don't know if there's a study or not. But to the extent that it was outside of the labour strategy, is that something you'd be interested in?

MR. RUBENSTEIN: I just want to be clear when we say outside the labour, because in some sense, everything, every compensation and every labour is -- the compensation reports obviously have something to do with the labour strategy, so ...

You have seen the redacted parts, so you -- the panel is obviously in a better position to understand if this is a -- is there is some slide earlier on that actually answers this question?

MR. QUESNELLE: No, there isn't. Other than it fits within the description. If Mr. Nettleton has pointed to the FTE benchmarking as being part of the labour strategy, I can understand the section. But I could understand that without looking at the actual material that.

But if -- what I'm asking the question is are there any FTE benchmarkings outside of that realm of the labour strategy?

MR. NETTLETON: I don't know the answer to that.

MR. QUESNELLE: If there were, would you be interested in seeing those, Mr. Rubenstein?

MR. RUBENSTEIN: I am interested in seeing as much as I can see, so, yes, I just would urge that the labour strategy it seems to me that would cover in essence everything that could ever -- with respect to compensation involves labour strategy to some degree.

MR. QUESNELLE: And we did put our minds to that yesterday as to the difference between those and made a ruling.

If there were FTE studies that were not -- have not been filed on the record and are beyond or outside of the scope as we ruled on yesterday, Mr. Nettleton, we'd like those produced.

MR. NETTLETON: Mr. Chairman, I am just wanting to be clear with the last part of your statement of "outside the labour strategy".

MR. QUESNELLE: You asked for certain information to remain off -- keep off the record. And the Board ruled on that. So an FTE analysis that fed into that strategy I think we've already ruled on.

MR. NETTLETON: Yes.

MR. QUESNELLE: If there are FTE benchmarking from a general sense from looking at other corporations of FTEs, like-for-like work, that sort of thing, to rank for Hydro One to rank itself instead of an efficiency strategy, I think those are fair game.

MR. NETTLETON: I will check and see what was available at that time or was used at that time. Thank you.

MR. QUESNELLE: Thank you.

MR. RUBENSTEIN: Those are all my questions. Thank you very much.

MR. QUESNELLE: Thank you, Mr. Rubenstein.

MR. SIDLOFSKY: Sorry, Mr. Quesnelle, did you want to mark that as an undertaking to keep track of it?

MR. QUESNELLE: To keep track of it, please.

MR. SIDLOFSKY: J10.1.

UNDERTAKING NO. J10.1: TO PROVIDE THE FTE ANALYSIS THAT FED INTO THE LABOUR STRATEGY

MR. QUESNELLE: Okay, Mr. Sidlofsky.

CROSS-EXAMINATION BY MR. SIDLOFSKY:

MR. SIDLOFSKY: Thank you, sir. Mr. Davies is passing up a copy of the Staff compendium for this panel, so I'll mark that as Exhibit K10.2.

EXHIBIT NO. K10.2: BOARD STAFF CROSS-EXAMINATION COMPENDIUM FOR HONI PANEL 6.

MR. SIDLOFSKY: Good morning, panel. My name is James Sidlofsky. I'm here as counsel to Board Staff, and I don't have a lot of questions for you this morning, which is probably a relief for everybody.

We'll start, though, with page 1 of the compendium, and at that page we've reproduced Exhibit I, tab 2, Schedule Staff 4. It is a copy of Hydro One's response to OEB Staff Interrogatory No. 4, and that interrogatory discusses changes Hydro One has made in its account collections process and how that's reduced accounts receivable from $194 million in 2014 to $86 million in the third quarter of 2017, so that's a reduction of well over 50 percent in the three years.

That interrogatory noted that during the executive presentation day Mr. Pugliese had indicated that Hydro One had changed its collection process from four stages to eight stages, so I have a few questions on that.

First, does Hydro One believe that that reduction was entirely due to the changes in its collection process, or are there other factors involved in that reduction in receivables?

MR. MERALI: I believe there are a number of factors that contributed to the overall reduction in accounts receivable.

MR. SIDLOFSKY: And can you give me a sense of what those factors are and how much they may have contributed to that change?

MR. MERALI: I can give you a sense of what the factors are. The proportionality in terms of how much they contributed is much more difficult. So over the past few years we made a number of changes to our collections policy. I think the exhibit here outlines our, I'll call it outreach, and our proactive and frequent communication with customers, so that is certainly one element that we believe played a significant role in reducing our accounts receivable. Certainly things such as the Fair Hydro Plan provide -- played a role as well.

Some other things that I'll cite: We've provided additional training for all our contact centre staff, which we believe has been effective in assisting with the reduction in arrears, and that really focused on what I'll describe as sort of agent empowerment, and rather than a prescriptive following of the rules allowing our front-line staff to make the appropriate decisions to do what was right for that particular customer need.

We've also implemented things such as what I'll call case management, so for our top accounts with overdue receivables, we have a series of individuals that work on those accounts, build relationships with those customers of those companies, to address the underlying issues. So it's a combination of items.

MR. SIDLOFSKY: But you don't have a sense of the proportionality of those -- of the savings to those items?

MR. MERALI: There is no easy way or way that I can think of to sort of quantify each element and how much it contributed to the reduction in overdue receivables.

MR. SIDLOFSKY: Okay, thanks, Mr. Merali.

Was that collection strategy, that new collection strategy, developed internally or did you look to other organizations when you were considering that change?

MR. MERALI: It was done internally.

MR. SIDLOFSKY: Okay. Does the shift from -- excuse me. Oh, sorry, just maybe for your reference I'll take you to the next page of the compendium just so we have the -- those stages up on the screen.

Now, does that shift from four to eight stages increase costs, and if it does increase your costs, can you give me an indication of how much of an increase there is?

MR. MERALI: There is an increased cost associated with our letter volume. So historically, you know, per OEB guidelines, if it's just following the letter of the law, it is a disconnection notice followed by a disconnection.

So there would be one notice printed and mailed to a customer.

And as you can see in the diagram depicted here, there are three letters that are mailed to customers going through a disconnection process, so there's an increase in postage cost associated with that. That would be the primary cost.

MR. SIDLOFSKY: So no significant cost for any of the other steps?

MR. MERALI: No, the auto-diallers cost us a negligible amount of money, so it wouldn't be material.

MR. SIDLOFSKY: Okay. And did you do any cost/benefit analysis before undertaking that change?

MR. MERALI: No, we did not.

MR. SIDLOFSKY: Take you to the next page of the compendium, please. And at page 3 we've reproduced your response to Exhibit I, tab 23, Staff 77, so that's your response to Staff Interrogatory No. 77. And in that interrogatory staff were asking about a finding in the IPSOS report that large customers want improved outage, customer communications with more accurate estimates of power restoration.

Now, first, in part A Hydro One was asked to identify if any of the proposed changes in operating practices are intended to address this customer preference. And it appears that you are identifying two changes. First, exploration of outage response, management system enhancements that will enable the field to update outage restoration information in real-time via mobile devices and, second, enhancements to the customer portal, allowing large customers to directly input their own incidents or directly view restoration information in real-time about outages affecting them.

Could you clarify whether those changes arose as a direct consequence of the recommendation in the IPSOS report?

MR. MERALI: I personally wouldn't characterize it as directly out of IPSOS. I'll ask Mr. Irvine to potentially comment as well. We certainly knew outage communications was a issue for our customers. IPSOS reinforced that. Steps were underway to improve that, so I'd say the IPSOS report confirmed and validated that this was an issue and it further justified our increased efforts in these areas.

MR. IRVINE: What I could add to that is these initiatives -- and what we look at are constantly trying to improve upon the customer communication, so these are things that I wouldn't say are directly tied to IPSOS but are tied to the desire to improve communications overall.

MR. SIDLOFSKY: Okay. Thank you.

Now, moving on to parts B and C of that interrogatory, Staff had asked Hydro One whether -- if there were any such projects, was Hydro One proposing the costs related to the projects or changes be assigned to large customer classes, or to all customers, and if all customers, the rationale for that approach.

Now, your response was that all customers were proposed to share the associated costs, and you justified this on the basis that the improvements identified in part A represent only a small or incremental cost to the total cost of operating outage response management systems and NOMS, which provide benefit to all customers.

Would your answer have been different if the identified improvements had represented a significant incremental cost?

MR. MERALI: Not being the rate design expert, when I think about the various investments in the customer space that we make, they are attributed across our entire distribution rate base. And different investments certainly provide different value to what I'd classify as our mass market customers versus our large customers.

So if I look at sort of Hydro One's current practice, any investments in the customer service space are allocated across the entire customer base.

MR. SIDLOFSKY: Regardless of whether large users were the predominant beneficiary of those services?

MR. MERALI: I believe that's been Hydro One's practice to date.

MR. SIDLOFSKY: Does the outage response management system and the network outage management system serve both large users and other customer classes?

MR. IRVINE: They do serve other classes. Network outage management system serves both an a distribution and transmission level.

The outage response management system is distribution-focused, but at multiple customer levels.

MR. SIDLOFSKY: When you say multiple customer Levels, how far down in customer size would that would that go?

MR. IRVINE: It goes right down to the individual residential customer.

MR. SIDLOFSKY: Okay. So then you're suggesting it really does serve all your customer classes?

MR. IRVINE: On the outage response management system transmission-connected customers, they have a slightly, in communication at least, different process. All customer outages that affect any distribution customer is captured in our outage response management system.

MR. SIDLOFSKY: So yes, it does serve...

MR. IRVINE: If caused by a transmission incident.

MR. MERALI: So the management response does serve all distribution customers.

MR. SIDLOFSKY: Okay. Thanks for that. Could I take you to page 7 of the compendium, please? And we've reproduced Exhibit I, tab 23, Staff 80, and in Staff Interrogatory No. 80, OEB Staff asked whether customers have requested that Hydro One make additional capital investments to improve their self service experience and interactions with Hydro One.

And your response referred back to Staff interrogatory 76, which provided a justification for the project.

This might be a question for Mr. Merali, but I'll leave it to the panel. Could you provide a list of projects that were undertaken specifically as a result of your customer engagement process, and how that engagement process led to the project being adopted? Is that information available?

MR. MERALI: So the -- our IT investments and the ISDs referenced here, they're primarily driven by a need to replace underlying technology that's end of life.

So if the question is did the IPSOS study result in any specific customer IT investment -- is that the question?

MR. SIDLOFSKY: No, it's -- sorry, I wasn't referring just to IPSOS. I'd say more generally than that.

MR. MERALI: Would you mind --

MR. SIDLOFSKY: Sorry, not just to IT, but other self-service-related projects.

MR. MERALI: Just so I understand the question, are you asking through all of our engagement activities and outreach with customers, did that information lead to any specific investments? Is that the question being asked?

MR. SIDLOFSKY: That's correct.

MR. MERALI: I think it has. I'm just trying to think if I have to take this undertaking, how I'd provide a response.

If I can maybe just talk this through for a minute -- you know, if we look at our residential and small business satisfaction survey, it showed only 60 percent of customers understood -- had a good understanding of their bill, and that was one of the factors that led us to perform our bill redesign initiative.

Is that the type of thing that you're looking for?

MR. SIDLOFSKY: What we're looking for is whether what you heard in your customer engagement exercises led to any specific projects being undertaken. Does that clarify it for you?

MR. QUESNELLE: Does the example fit into the category that you're thinking of, the redesign of the bill?

MR. SIDLOFSKY: It does fit into the category, yes, sir.

[Witness panel confers]

MR. MERALI: Sure, we can undertake to provide some information in that area.

I would comment that the engagement sometimes supports -- like there's other factors that would lead us to make an investment.

In some cases, we know the market, for example, is moving towards websites that are mobile friendly. So we know that 40 percent of customers are accessing our website through a mobile device; hence, we need to ensure our website is mobile capable.

I don't know if I have anything in an engagement study that specifically articulates that, but I think I get what you're asking and we can undertake to provide some information on that.

MR. SIDLOFSKY: We'll make that J10.2 then, thank you.

UNDERTAKING NO. J10.2: TO PROVIDE A LIST OF PROJECTS UNDERTAKEN SPECIFICALLY AS A RESULT OF HYDRO ONE’S CUSTOMER ENGAGEMENT PROCESS, AND HOW THAT ENGAGEMENT

PROCESS LED TO THE PROJECT BEING ADOPTED.

MR. SIDLOFSKY: Moving to page 8 of the compendium, and in Exhibit I, tab 25, Staff 149, the interrogatory relates to ISD general plant 08, PCMIS modernization and optimization.

And in that interrogatory, we asked Hydro One how these expenditures relate to the expenditures identified in four of your other general plant projects, GP-03 to GP-06, and whether there are any overlaps between those programs.

And your response was that the current PCMIS solution is custom application with significant limitations, as you outlined in project GP-08, and that the software is currently at its end of life and doesn't meet all the business requirements of Hydro One.

As well, in order to fulfill operational requirements, Hydro One is evaluating new solution options as well as processes and interfaces. And you didn't consider this to be an enhancement or an upgrade funded out of the investments outlined in GP-03 through GP-06, because it would be a new solution, correct?

MR. FROST-HUNT: Yes, that is correct.

MR. SIFLOFSKY: And my question is whether you could clarify what spending is included in the current application regarding new solution options, processes and interfaces.

MR. FROST-HUNT: Mr. Sidlofsky, are you able to clarify your question for me, please?

MR. SIDLOFSKY: Just bear with me for a moment, please. Just to clarify then, you said in your response you are evaluating new solution options as well as processes and interfaces.

MR. FROST-HUNT: That is correct.

MR. SIDLOFSKY: That's in your response to the interrogatory. So my question about spending is whether there is any spending included, any expenditures included in the current application related to that -- related to the evaluation of new solution options, processes and interfaces?

MR. FROST-HUNT: Perhaps a difference here is between our maintenance spend both for infrastructure and software, looking after items that are already in productivity production and making sure they are robust and reliable, versus the discovery that we undertake to evaluate new solutions; is that the correct interpretation?

MR. SIDLOFSKY: Well, are you spending any money to do that discovery, first of all?

MR. FROST-HUNT: It would be a negligible amount. We have reached out to our peer community to understand ways that they manage protection and control for assets. We have a significant investment in SAP, so we've tasked our SAP account team to inform us as to what options we may have available with our enterprise asset management solution from SAP. We also have had some conversations with Hydro One telecom around how they handle device settings on scale. Those efforts would not be a material cost. They're part of our strategy development within IT.

MR. SIDLOFSKY: Is there a particular project number that I could look to to see that? Or is it spread across your IT activities?

MR. FROST-HUNT: It would be in our IT labour OM&A. And again, these activities are part of our regular practice of renewing strategy and architecture.

MR. SIDLOFSKY: And is there any spending included in the five-year period for the actual implementation of new options or are you just at a discovery stage at this point?

MR. FROST-HUNT: We are at a discovery stage at this point.

MR. SIDLOFSKY: Page 9 of the compendium, please. And at page 9 you will see a copy of your response to OEB Staff Interrogatory No.153 at Exhibit I, tab 25, Staff 153.

And in that interrogatory Staff referred to the investment need for ISD number GP17, and just to read the preamble there:

> "IT need SAP has announced that they will stop improving the current enterprise BI platforms immediately and vendor support for the current platform altogether will end in 2025. SAP will shift development to their new SAPS4HANA platform. All business functions performed on the current platform will ultimately have to migrate to the new platform."

OEB Staff asked in part A how that migration project affects the other IT capital expenditures, and your response is that:

"The company intends to leverage the database that comes with the S4HANA platform to consolidate over time the requirement for its various SAP applications, with few examples, and potentially the GIS mapping software, ESRI."

And then you state that:

"This project to a degree will reduce the complexity of the technical environments, albeit it may not reduce the expenditures of other IT capital investments, as investments will be required to facilitate the consolidation."

I have a couple of questions about that. First of all, is the reduction of the complexity of the technical environments produced by this project a significant benefit of the project?

MR. FROST-HUNT: Yes, it is. I can elaborate further, if you --

MR. SIDLOFSKY: If you could.

MR. FROST-HUNT: Yeah. This next-generation platform from SAP marks a fairly significant change in SAP's approach to meeting its customers' needs. The R3 version, which we are currently on right now, is highly customizable, and the practice is that you would engage with your line of business to understand what the requirements are and then configure the solution to meet the business need.

What we're seeing with S4 solution from SAP is a change, and it's such that industry best practice is preconfigured in the tool. The underlying database technologies are very different and they enable high-speed analytics without having to build complex data structures.

SAP's approach is to provide these functionalities to the marketplace such that businesses adopt them as-is, and the processes that come with them are considered industry standard such that we would not customize the tool, we would use it as provided.

When we evaluated our go-forward finance requirements, we looked at implementing them on the current R3 platform, and given the end-of-life declaration by SAP we also looked at the capabilities in S4, and S4 will meet our current and future finance and reporting requirements, and we are looking to reduce the complexity by adopting the solution as it is intended.

MR. SIDLOFSKY: Thanks for the elaboration. I appreciate that.

Can you tell me how much of an impact the investments required to facilitate the consolidation would have on your other IT capital investments?

MR. FROST-HUNT: The way that we're going to deploy S4 is to run it in parallel with our existing R3, so we are deploying the capability in our data centre today to host that new finance capability, and there will be integration requirements required between the legacy R3 system and the future S4 system to accommodate this parallel deployment.

MR. SIDLOFSKY: Now, on a related note in part B of that interrogatory Staff asked whether the implementation of the SAP platform would cause delays or cost escalation for the other listed IT projects and your response referred to the evidence update in Exhibit Q, specifically Exhibit Q, tab 1, Schedule 1-1.2, capital forecast update for the years 2018 to '22:

"Due to adjustments made to general plant projects..."

And then here's where I want to focus in on: The comment that it takes -- the forecast update:

"...takes due recognition of the impact and dependencies, if any, of other SAP-related investments:

And then you go on to say that:

"Other than these, the investments should not negatively impact the cost and schedule of other investments outside of the normal recalibration of activities as part of IT operations."

First of all, I would ask you to elaborate on what's meant by the phrase "due recognition of the impact and dependencies, if any, of other SAP-related investments" and how that ties into the implementation impacts of the SAP platform?

MR. FROST-HUNT: Yes, sir. In the original filing we had a business planning consolidation project proposed as well as a treasury upgrade project proposed. In the subsequent update we recognize the interdependencies between those two initiatives and the S4 finance solution, and what you will see is that we have bundled those like investments together and we've reduced the BPC and treasury investments and folded them into S4 finance.

Further, we have resequenced the projects during that S4 deployment time frame such that it would minimize any interdependencies, so you will see we've resequenced the CTI project, GIS, and engineering design. Those are all subsequent to the original filing.

MR. SIDLOFSKY: Sorry, you've resequenced those to allow for the implementation of the S4?

MR. FROST-HUNT: We've bundled where the dependencies are there, and we've resequenced to make sure parallel initiatives are not impacted. Yes, sir.

MR. SIDLOFSKY: Okay. And could you speak to the extent to which capital forecast -- sorry, to which the capital forecast update incorporated delays or cost escalations for the other IT projects?

MR. FROST-HUNT: There is no plan-over-plan -- I think maybe the plan-over-plan net is a couple of hundred thousand. There is very, very little impact.

MR. SIDLOFSKY: Okay. And in part C of that interrogatory Staff asked whether Hydro One has a critical dependency on SAP software or services and, if so, to explain what steps you are taking to mitigate the potential cost pressures resulting from the single-source dependency, and your response was that you use many applications in the process of managing your business, and that:

"To mitigate potential cost pressure relating to Hydro One's SAP solution, the system is kept at vendor-supported patch levels where standard SAP support mechanisms apply. SAP support rates are negotiated and known well in advance. Should Hydro One not maintain vendor supported levels, there could be considerable application maintenance costs in procuring extended support or emergency support."

That was your response, correct?

MR. FROST-HUNT: Yes, sir.

MR. SIDLOFSKY: And just going back to the actual question in part C of that interrogatory, where Staff asked whether Hydro One has a critical dependency on SAP software or services, are you saying that you do or you don't?

MR. FROST-HUNT: Yes, we do.

MR. SIFLOFSKY: And could you just explain briefly what it means to keep the system and vendor-supported patch levels where standard SAP support mechanisms apply, and why that's important?

MR. FROST-HUNT: Yes, sir. The single greatest factor in controlling our costs with regard to SAP is making sure that our SAP solution is at vendor-supported levels that are within the negotiated support arrangements that were made when we negotiated the purchase.

So if I could, we purchase on premise software where the maintenance terms, the support terms are pre-negotiated and held perpetual for the life of the agreement. We need to comply with that agreement in order to fall within those negotiated support terms.

Secondly, we are seeing the move to cloud, where this is not an on premise one-time software purchase, it is actually a subscription. So you pay a monthly subscription fee and we are negotiating controls into those subscription costs such that they have extended terms of four years and then, upon renewal, they are bound to consumer price index or a certain percentage increase.

So we're negotiating those terms at the time we engage on the purchase and, like I said, the single greatest factor in controlling our cost is maintaining vendor support -- supported levels on a system.

MR. SIDLOFSKY: So just to try to put it a little more simply, if you don't keep your system up to date, you don't qualify for the support that you're paying for?

MR. FROST-HUNT: Yes, that is correct. That's much simpler than the way I said it.

MR. SIDLOFSKY: Wow, that was great. That's only because I'm not in IT. Thank you for that.

My last question; it's got a bit of a preamble, but it leads to one question.

Page 13 of the compendium, please. And at page 13, we've reproduced Exhibit I, tab 23, Staff 199.

And in Staff interrogatory 199, Staff notes that at Exhibit C1, tab 1, schedule 5, page 3 under "Call centre operations":

> "Hydro One indicated that the call centre handled over 2.7 million calls from customers and responded to over 63,000 emails."

Hydro One was asked to provide a table showing those statistics per year from 2012 to 2017, and you did that in your response to part A of the interrogatory.

You were also asked, in part B of that interrogatory, to comment on the trend of the cost per call response per year. And as far as the question about the trend of cost per customer call response was concerned, your response was that your contact centre operations were outsourced to a third-party vendor during the period noted above.

"The contract with the third-party vendor included a number of services, including contact centre, billing, collections, and distributed generation. The costs for all these services were bundled together as outlined in Exhibit C1, tab 1, schedule 5. As such, the cost per call ranges from $10 to $50."

Just going back to the question again, Staff had asked for comments on the trend of cost per customer call -- sorry, let me try that again, trend of cost per customer call response per year.

So my question for you is whether your response to part B means that you don't have any information that you can offer on the trend of the customer -- of the cost per call response per year.

MR. MERALI: So going back historically prior to us in-sourcing the operation, because of the bundled nature of the contract, it was very difficult for us to ascertain a cost per call, because it was bundled together in a fixed fee for our outsourcer.

Now that we operate the contact centre, certainly it's much easier for us to calculate a cost per call.

I would comment that our staff are primarily what we call blended Staff. So typically, what we try and do for the most part is staff answers calls and in between calls, they do back office type of work -- so an email, working an exception, something of that nature.

So we do have a blended staff, which makes the calculation a little more difficult in terms of just the cost per phone call.

MR. SIDLOFSKY: Do you monitor time spent on calls?

MR. MERALI: Yes.

MR. SIDLOFSKY: So, I'm sorry, I'm not clear on why the back office activity would somehow complicate that calculation.

MR. MERALI: So in the contact centre, we look at, I guess, overall and to industry standard is like occupancy. What's the total occupancy of the staff and that includes the phone call time that they're on the phone, and any time they're doing any back office functions.

If you wanted -- if you are looking for an approximation of the cost per call, we could certainly look at the average call length, make some estimations in terms of how many calls an agent could answer in a day, and sort of calculate what a cost per call would be.

MR. SIDLOFSKY: You maintain those metrics, don't you?

MR. MERALI: Yes, we do.

MR. SIDLOFSKY: Could you provide that information?

MR. MERALI: Yes.

MR. SIFLOFSKY: Could I take an undertaking for that? Thank you. J10.3.

UNDERTAKING NO. J10.3: TO PROVIDE CALL CENTRE METRICS

MR. SIDLOFSKY: Thank you, panel, those are my questions.

MR. QUESNELLE: Thank you, Mr. Sidlofsky. Mr. Rubenstein?

CROSS-EXAMINATION BY MR. RUBENSTEIN (CONT'D):

MR. RUBENSTEIN: If I could be granted an indulgence. While we having a discussion about the undertaking, I missed that I was going to ask one question, one undertaking that I was going to ask from the panel that I think all would benefit from.

MR. QUESNELLE: Certainly. Go ahead.

MR. RUBENSTEIN: I'm wondering if we can quickly just turn in my compendium to page 39. And what you've done on this page in table 1, you have provided the total IT budget. And then in table 2, you've broken it down to the distribution component, correct?

MR. MERALI: That is correct.

MR. RUBENSTEIN: And I noticed we don't have a similar table or a similar breakdown for capital. I was wondering if you could provide, on a similar basis -- I'm just looking at the total -- what the total capital budget for 2014 to 2018 is for the information capital.

I was wondering if -- I was unable to find that in the evidence anywhere. If I'm incorrect?

MR. FROST-HUNT: I believe the total for IT capital is in SEC 38.

MR. RUBENSTEIN: With respect to both capital and for the non-, broken down to distribution?

MR. NETTLETON: We'll bring up SEC 38.

MR. FROST-HUNT: Mr. Rubenstein, is that what you're looking for?

MR. RUBENSTEIN: No, that is the distribution component of information technology, correct?

MR. FROST-HUNT: That's correct, yes.

MR. RUBENSTEIN: And I wonder if you could provide, similarly as you provided for OM&A, the total non-allocated to distribution, so we have a full picture of the IT spending.

MR. FROST-HUNT: Yes, we can easily do that.

MR. RUBENSTEIN: Can you do that for 2014 and 2017 actuals and, I guess, the 2018 forecast?

MR. FROST-HUNT: Yes.

MR. RUBENSTEIN: Thank you. May I have an undertaking for that?

MR. SIDLOFSKY: That will be undertaking J10.4.

UNDERTAKING NO. J10.4: TO PROVIDE IT SPENDING SIMILARLY AS PROVIDED FOR OM&A, SHOWING THE TOTAL NON-ALLOCATED TO DISTRIBUTION

MR. RUBENSTEIN: Thank you very much for that indulgence.

MR. QUESNELLE: Any re-examination?

RE-EXAMINATION BY MR. NETTLETON:

MR. NETTLETON: I do, sir. Panel, if you could turn to SEC compendium page 37, here what is repeated is a portion of Exhibit B1-1-1, section 3.2, page 4 of 9.

Do you have that, Mr. Frost-Hunt?

MR. FROST-HUNT: Yes, I do.

MR. NETTLETON: And with respect to the years 2015 and 2016, my friend Mr. Rubenstein identified that there was a gap where the difference between the planned and actuals in each of 2015 and 2016. Do you remember that?

MR. FROST-HUNT: Yes, I do.

MR. NETTLETON: Could you please explain the reasons for those variances?

MR. FROST-HUNT: The variance explanations are in the DSP. If I could please take you to DSP section 3.6, page 6 of 9.

Mr. Nettleton, here you will see a series of investments, customer-service operations, telematics, customer analytics, customer portal, our move-to-mobile project clearly outlined.

MR. NETTLETON: All right. And Mr. Frost-Hunt, were these differences a result, if you will, of Hydro One's redirection process?

MR. FROST-HUNT: Yes, they were.

MR. NETTLETON: And Mr. Frost-Hunt, if I could take you to page 38 of the SEC compendium, which is the -- showing the forecast capital expenditures over the test period; do you see that?

MR. FROST-HUNT: Yes, I do.

MR. NETTLETON: And if we could just stop there, Mr. Frost-Hunt, you had a discussion with Mr. Sidlofsky regarding the concepts of recalibration, and I also believe resequencing was the term that you used; do you remember that?

MR. FROST-HUNT: Yes, I do.

MR. NETTLETON: Now, with respect to redirection, what -- is there a relationship between redirection, resequencing, and recalibration, or are they mutually independent?

MR. FROST-HUNT: It's my interpretation of your question that they are independent.

MR. NETTLETON: Thank you. Could you explain that, please?

MR. FROST-HUNT: If I consider resequencing, these are investments that are in the plan and proposed, contrasting that to redirection, which may be a new investment that has emerged within the period of the plan.

MR. NETTLETON: Okay. And, sir, I'm asking you these questions as it relates to this test-year forecast. Is it your evidence, sir, that redirection is not something you anticipate happening or resequencing or recalibration are things that you believe are not going to happen during the test-year period?

MR. FROST-HUNT: Again, Mr. Nettleton, it is my interpretation that resequencing within the plan are known investments and we are looking to optimize the delivery of those known investments.

Redirection is a process where we would take new and emerging -- net new and emerging opportunities to be evaluated against the existing plan for investment.

MR. NETTLETON: So the numbers that are shown in this forecast could change?

MR. FROST-HUNT: If there was an investment taken to redirection that represented a net new spend, that would be the only way that these forecast numbers would change.

MR. NETTLETON: Thank you. Those are my questions, Mr. Chairman.

MR. QUESNELLE: Thank you. Thank you, panel.

We'll have a new panel up after the break, and we'll return at 11:25.

--- Recess taken at 11:09 a.m.

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

MR. QUESNELLE: Mr. Vegh, welcome back.

MR. VEGH: Thank you, Mr. Quesnelle, it is my pleasure.

I just have a preliminary matter and then I'll introduce panel 7.

MR. QUESNELLE: Okay, thank you.

MR. VEGH: The preliminary matter is with respect to a piece of evidence that has been handed out entitled "Oral hearing K", and this is in response to a request for information from Board Staff yesterday.

So I'd like to put this on the record and I believe we need to mark this as an exhibit number.

MR. QUESNELLE: Okay, let's do that.

MR. SIDLOFSKY: We'll mark that as Exhibit K10.3.

EXHIBIT NO. K10.3: DOCUMENT ENTITLED "ORAL HEARING K"

MR. QUESNELLE: Is it two pages?

MR. VEGH: It is a single page. There are some other documents that were handed up. When the witnesses are introduced, they have some corrections to the evidence and they will be speaking to those other documents as well.

MR. QUESNELLE: All right. Thank you.

MR. VEGH: So with your leave, I'd like to introduce the panel first for the purposes of being affirmed, and then to go through their evidence.

MR. QUESNELLE: Thank you.

MR. VEGH: So furthest from me and closest to the window is Mr. Clement Li. Beside him is Mr. Henry Andre, who you will recognize from an earlier panel.

Next to Mr. Andre is Mr. Bijan Alagheband, and next to Mr. Alagheband is Mr. John Boldt.

HYDRO ONE NETWORKS INC. - PANEL 7, LOAD FORECASTING & RATE DESIGN

Henry Andre,

Bijan Alagheband,

Clement Li,

John Boldt; Affirmed

EXAMINATION-IN-CHIEF BY MR. VEGH:

MR. VEGH: Thank you, Ms. Anderson.

So to introduce this panel, I will be referring to their curriculum vitaes at A92, as well as what we've been calling the hearing plan at Exhibit K.2.1.

I am going to start with you, Mr. Andre. You have been sworn and you have given evidence this proceeding. But just to remind the panel, you are currently director pricing and compliance, regulatory affairs, and corporate finance at Hydro One?

MR. ANDRE: Yes, that's correct.

MR. VEGH: Can you outline for the panel your major responsibilities in that role?

MR. ANDRE: I lead a group of people that are responsible for developing the load forecast that we use for application and business planning purposes, and also a group that looks after the cost allocation and design of transmission and distribution rates.

MR. VEGH: Thank you. And what were the major areas of responsibilities in this application?

MR. ANDRE: All of the exhibits, exhibits G and H relating to cost allocation and rate design, and supervision over the exhibit that dealt with load forecasting.

MR. VEGH: Thank you. We'll turn now to Exhibit K2.1, which identifies a number of undertakings, prefiled evidence, and interrogatories that are associated with your name in terms of the column of witness responsibility.

Can you confirm that you adopt that evidence in this proceeding?

MR. ANDRE: I do.

MR. VEGH: Thank you, sir. Turning next to you, Mr.

Algheband, your CV is at page 90 of Exhibit A9.2.
So you are currently manager, economics and load forecasting at Hydro One?
MR. ALAGHEBAND: That's correct.
MR. VEGH: What are your major responsibilities in that area?
MR. ALAGHEBAND: Well, I am responsible for all the economic and load forecasting demands in the company.
MR. VEGH: And what are the areas of responsibility in this application that you are responsible for?
MR. ALAGHEBAND: Well, it was all the evidence regarding the evidence in I-1 is under my responsibility.
MR. VEGH: And more specifically at Exhibit K2.1, there is a list of prefiled evidence, interrogatories and undertakings from the technical conference beside your name at page 47. Do you adopt that evidence?
MR. ALAGHEBAND: Yes, I do.
MR. VEGH: Thank you. Mr. Li, good morning.
MR. LI: Good morning.
MR. VEGH: Your CV is at page 92 of Exhibit A 92. You are currently manager, transmission and distribution planning?
MR. LI: Yes -- pricing.
MR. VEGH: Sorry, distribution pricing?
MR. LI: Yes.
MR. VEGH: What are your major areas of responsibility in this proceeding?
MR. LI: Cost allocation and rate design.

MR. VEGH: Okay, thank you. Turning to you then, Mr. Boldt, your CV is at page 93 of Exhibit A 9-2, and your current title is manager asset optimization at Hydro One?

MR. BOLDT: Yes, that's correct.

MR. VEGH: What are your major responsibilities in that?

MR. BOLDT: I lead a team on the distribution side of the business responsible for all joint use activities, including contracts as well as, on the transmission side of the business related to secondary land use.

MR. VEGH: And what's your major area of responsibility in this application?

MR. BOLDT: I'll be defending the external revenues found in Exhibit E1 and specific service charges in H1, as well as the time study.

MR. VEGH: Very good. And the -- and specifically, Exhibit K .2.1 identifies prefiled evidence and interrogatories that your name is attached to. Do you adopt that evidence?

MR. BOLDT: Yes.

MR. VEGH: Thank you. Now, I understand that Mr. Andre has a short opening statement, and there will also be some corrections to this panel's evidence. Mr. Andre?

MR. ANDRE: Thank you. So I do have a few items I'd like to address. First on the topic of load forecasting, Hydro One would like to clarify some items regarding its load forecast and how the load forecast is used in the context of the revenue cap approached proposed in our custom IR application.

First, as confirmed in our response to undertaking JT3.18-5, Hydro One is requesting approval of the load forecast as provided in the response to interrogatory Exhibit I, tab 46, schedule 219, which is an update to the load forecast submitted in the prefiled evidence.

The updated forecast has been adjusted to reflect the actual weather normal 2017 consumption, and 2017 number of customers that forms the base of our load forecast for the period of this application.

In addition, we are proposing to update the forecast for 2021 and 2022 as part of our 2020 annual filing under a custom IR.

We've provided prefiled evidence and a number of IR responses on why we believe it is necessary and appropriate to update the load forecast at that time, in order to more accurately and fairly allocate the costs to the new acquired rate classes being established in 2021.

This is a requirement of the Board's approval of the MAADs applications, which specifically held that these customers are to be charged rates that reflect the cost of serving them.

The request to update the load forecast is addressed in the evidence at Exhibit A, tab 3, schedule 1, and in IR response Exhibit I, tab 13, schedule CCC 15.

Other than the update in 2020, Hydro One is not proposing to change the forecast from what we filed in our current application, but -- and this is an important point, for all years of the custom IR period, Hydro One will be using the load forecast as proposed for those years to calculate the rates for each year.

This is consistent with Hydro One's revenue cap Approach, which establishes the revenue to be collected in subsequent years of the custom IR using an index adjustment to the prior year's revenue requirement and then calculates the rates for each subsequent year taking into account the load forecast for that year.

With respect to the rates proposed for the new acquired rate classes, as the Board is aware, Hydro One provided an update to its prefiled evidence on December 21st, 2017, in the form of a new Exhibit Q, tab 1, Schedule 1.

One of the items updated as part of Exhibit Q was the allocation of costs to the six new acquired rate classes Hydro One is proposing in its application. The bill impacts calculated for the Board's standard methodology were not provided as part of Exhibit Q but were subsequently provided in the response to interrogatory Exhibit I, tab 53, Schedule CCC 68.

And if I could just briefly take you to that interrogatory, so that was Exhibit I, tab 53, Schedule 68. So scroll down to the table. All right. Hold it there.

So I want to draw your attention to the last column in the table you see on the screen, which shows that on a total bill basis the bill impact on customers on acquired customers are quite reasonable, particularly given that the impacts on this table are measured relative to the acquired customer distribution rates that have been frozen since 2013 and '14 and also includes an acquisition rate rider that reduces their frozen rates by 1 percent.

What Hydro One additionally provided in Exhibit Q was a calculation of the bill impacts when you compare Hydro One's proposed rates for the acquired customers to the estimated rates those customers would have been paying had they not been acquired. This bill-impact assessment was provided in Tables 12 and 13 of Exhibit Q, but I would note that in the interrogatory response, Exhibit I, tab 56, Schedule 264, Hydro One provided a minor update to tables 12 and 13 to correct for the fact that we had used two decimal places instead of four decimal places when escalating the acquired general service rates. It doesn't have a big impact, but it does make the change.

So again, if we could go to Exhibit I, tab 56, Schedule 264, and if you could go down to page 5, table 12. Yeah, right there. So again, what this table is comparing is what Hydro One is proposing in 2021 versus what we would estimate the acquired utilities rates and charges to have been had they not been acquired, so again, drawing your attention to the last column, showing the total bill impact on acquired customers, you can see that when compared to -- against what their total bill would have been had they not been acquired, residential and general-service customers from all three acquired utilities are seeing a lower total bill.

So as an example -- let's take one as an example -- if you look at the total bill impact for a Woodstock residential customer, in the previous table at 750 kilowatt-hours, the Woodstock residential customer had an impact of 1.9 percent which, again, given the number of years since their rates were reset, I would suggest is reasonable, but when you compare it to the escalated rates and bills that they would have paid, you see that a Woodstock residential customer actually sees a reduction of minus 2.9 percent. Okay?

Moving now on to the topic of external revenues. Hydro One has included a forecast of 2018 external revenues in its application at Exhibit E, tab 1, Schedule 2, and that external revenue is premised on applying the 2018 specific service charges proposed in our application.

These amounts are charged to customers for specific one-off services such as opening new accounts and the like, and Mr. Boldt can speak to those specific service charges.

Now, in 2018, in the absence of approved 2018 charges, Hydro One continues to apply its 2017 approved specific service charges, and really it is not practical to go back to customers who paid these specific service charges and collect updated 2018 charges when they are approved.

As such, Hydro One proposes to update the 2018 external revenues when we file our draft rate order in this application in order to reflect the forecast external revenue based on applying the currently-approved 2017 charges until the effective date that the new 2018 charges are approved. This would not change the external revenue forecast for future years of the application, so it would only impact the forecast external revenue for 2018 at the draft rate order stage.

Another item with regard to external revenues is that on the first day of this oral hearing Mr. D'Andrea revised Hydro One's proposed revenue requirement to reflect the impacts of the Fair Hydro Plan. You will recall that yesterday my colleague, Imran Merali, advised that the external revenues from late payment charges would also be impacted by the Fair Hydro Plan.

The impact is a reduction in external revenues of approximately $2.2 million annually, so one of the documents that Mr. Vegh handed out to you, this table here, is a revised Table 4 that appears in Exhibit E, tab 1, Schedule 1, and this table reflects the modified external revenue forecast for the 2018 to 2022 rate term, which we propose to be used in the calculation of rates revenue requirement at the time that the draft rate or rate order is prepared.

MR. VEGH: Just for clarification, I believe the reference is Exhibit E, tab 1, Schedule 2.

MR. ANDRE: Um-hmm, okay. Schedule 2, yes.

With regards to foregone revenue, you will recall that during the testimony of panel 1, Mr. Rubenstein of the School Energy Coalition had asked about Hydro One's position with respect to the recovery of foregone revenue.

Hydro One's position is that we need to wait for the

Board decision in this case in order to determine the magnitude of foregone revenue. We will then look at what the customer bill impacts are resulting from the Board's decision an approved revenue requirement and we'll look at the impact of collecting the foregone revenue over a one-year period, as would typically be done. Hydro One will then ensure that the customer bill impacts are within the guidelines provided in the Board's filing requirements and, if necessary, propose bill impact mitigation which could include extending the recovery period of the foregone revenue.

On the topic of deferral and variance accounts, on April 27th, 2018 the OEB issued a letter to Hydro One indicating that it will be undertaking an audit of Hydro One's RPP settlement process and to assess the allocation methodology Hydro One uses to assign balances for group 1 deferral and variance accounts for all acquired utilities from 2015 onwards. So that OEB audit has not yet concluded, and results are unlikely to be available prior to completion of the record for this proceeding.

The audit may impact the 2015 and 2016 balances in certain group 1 accounts sought for disposition in this proceeding. Therefore, as a result, Hydro One wishes to amend its proposal to dispose of principal group 1 account balances only to December 31st, 2014 with interest calculated to the approved effective date in this proceeding.

The 2015 and 2016 group balances will be brought forward for disposition in a future annual adjustment application following the completion of the OEB's audit.

Hydro One's proposal regarding the disposition of the group 2 accounts remains unchanged.

MS. ANDERSON: Sorry, just before you go on, just can I clarify, that's all group 1 accounts, not just the commodity ones? That's your understanding?

MR. ANDRE: Yeah, the -- yeah, the power and the GA. Yes. So it's just the ones related to commodity.

MS. ANDERSON: Commodity and subject -- you can confirm later just whether it's the transmission, the wholesale market.

MR. ANDRE: No, those accounts -- I believe those accounts are fine. It is the group -- the ones relating to power.

MS. ANDERSON: And you can clarify.

MR. ANDRE: Yeah, we will -- if that answer is not correct, I'll correct it on the record.

Now, lastly, I also wanted to put an updated interrogatory response on the record, which I believe is the other document that you have in front of you. So as you know, interrogatory response Exhibit I, tab 46, schedule 219, provides Hydro One's updated load forecast that we're asking the Board to approve in this case. And we've noted that there are two tables in that Staff 219 response that show incorrect values.

Some components of table 7 were not shown correctly, and the forecast load values for 2018 to 2022 in table E7 were also shown incorrectly, although they were shown correctly in table E6.

Now, to be very clear, this updated interrogatory response does not change the sales forecast or the custom -- forecasted number of customers, so there is no change to the forecast. But given that this is a key interrogatory response, we wanted to get the corrected response on the record just to avoid any confusion with numbers that may not appear to add up.

So we wanted to correct that, but there is no change to the load forecast that we're requesting in Staff 219.

So those are my opening remarks, but my colleague, Mr. Boldt, has a couple of items he'd like to cover relating to specific service charges.

MS. ANDERSON: Just before we move on, I'm just looking back at the transcript and much earlier in your statement, you said "other than the update in 2020, Hydro One is not proposing to change the forecast."

Did you mean 2021?

MR. ANDRE: The update will be provided as part of the 2020 filing --

MS. ANDERSON: Filed in '20.

MR. ANDRE: -- for '21 and '22, correct.

MS. ANDERSON: So it's for '21...

MR. ANDRE: And '22, yes.

MR. SIDLOFSKY: I could just interrupt, Mr. Quesnelle, I'm just trying to keep track of the material that Hydro One provided.

The revised table 4, under Exhibit E1, tab 1, schedule 2, page 8, perhaps we should mark that as an exhibit, just to keep track of that. So that will be Exhibit K 10.4., and -- I'm sorry?

MR. VEGH: We could mark these as separate exhibits, if that's what the panel likes or prefers. Though these are marked as -- have exhibit numbers, these are just updates to the existing exhibit numbers.

So I'm not sure if we need to identify them as separate exhibits, or just have them as updated exhibits. As you know, panel, there are a number of updated exhibits in the record.

MR. QUESNELLE: I agree. Whatever protocol we typically follow, Mr. Sidlofsky, or whatever makes it easier. I don't have a strong feeling one way or the other.

MR. SIDLOFSKY: We can treat it as an evidence update and just file it with a blue page.

MR. QUESNELLE: Let's do that. That raises a question then. We've got the OEB Staff Interrogatory 219 and so the only updated element of that is table number 7?

MR. ANDRE: Table number 7; four of the CDM numbers have been shown incorrectly. But there is also an update, sir, to table E7.

MR. QUESNELLE: Okay.

MR. ANDRE: So the forecast numbers for E7 -- so the numbers shown by rate class -- okay, I think that would be helpful if we turn to that.

So on E7, the numbers shown by rate class for 2018 to 2022, since those are forecasts, both table E6 and E7 should be showing the same numbers and what we found in preparing for this panel was that the numbers in table E7 weren't correct. So what we've done is we've made the numbers consistent, so that both tables E6 and E7 show the same forecast numbers for '18 through 2022; so correction to table 7 and tables E7.

MR. QUESNELLE: So I guess what's key is to take a look here what's been changed here is the date that it's changed and what's marked as the change with a black bar, because the table above it was updated at one point in time, and we've lost the date on that.

As you can see, E.6 was updated -- is an update from the original, but the exhibit number -- you lose the date with the most recent update.

I'm not trying to make this complicated, but...

MR. VEGH: Well, I believe the markings at exhibit -- at this exhibit for tables E7 and for table 7 do identify what the update is with respect to today's date.

MR. QUESNELLE: Yes.

MR. VEGH: And when we file electronically, we could make that more clear.

MR. QUESNELLE: Thank you.

MR. SIDLOFSKY: Sorry, one last item. The first document that was referred to entitled Exhibit K, Mr. Vegh, I think we were going to be assigning an exhibit number to that and that was Exhibit K10.3.

MR. QUESNELLE: We did, yes.
MR. VEGH: Yes, that's correct.
MR. SIDLOFSKY: Thank you.
MR. BOLDT: Good morning. I just want to take this opportunity to put a correction to an interrogatory that was filed with the actuals, which is updated on the record.
In CME 67 -- sorry, I45, CME 67, we had previously filed 2017 actual retail service revenue as $17.9 million.
This amount should actually be 17.7 million, and the 2017 actuals regulated revenue total should be 37.5.
We had a handout that did -- that was submitted around the room this morning.
MR. QUESNELLE: We have that, and we'll just follow our protocol.
MR. BOLDT: And it's Exhibit 9, tab 45, schedule CME 67, and we reduced -- in the bridge year 2017, originally it was 17.9 and we reduced it to 17.7. And the total for the bridge year in 2017 has been reduced from 37.7 to 37.5.
MR. QUESNELLE: Okay. That's shown as updated as of today's date and been marked where the changes have been made. Okay, thank you.
MR. BOLDT: The other correction that I wanted to put on the record is filed in evidence as Exhibit H1, tab 1, schedule 3, and in particular, pages 106 to 112.
Due to a administrative area, the forestry maintenance, and particularly the line-clearing costs used in the calculation of the LDC and generator power space joint use attachment rates was incorrectly filed as

$87.7 million.

The correct line-clearing amount for 2016 was 27.4 million, which we've now collected in our evidence.

This correction reduces the 2018 rate for 10 feet of power space by 8 cents, from $85.33 to $85.25.

In the handout that we've given this morning, you will see there is a series of calculations in these two rates starting, if you will, on page 109, where we've corrected the line clearing from 87.7 million to 87.4.

And in doing that, what it does it is it takes the total forestry maintenance costs to -- sorry. The total forestry maintenance cost then is 129,300,000 divided by the total number of poles in 2006, which reduces the rate to 82.73.

When that rate is put within the formula, in particular table 4, it does -- you will see the calculation where it does reduce the 10-foot rate of 10-foot of power space for 2017 to 84.03. But then we increase that cost in our calculation by CPI less productivity to our starting rate at 85.22.

MR. QUESNELLE: So is that the -- are those the only pages that have changes in this package, this specific this service charges package?

MR. BOLDT: On the -- you will see on the handout there is -- let me just take you here.

In particular on page 108, the line on the right-hand side, where I stipulated that the 2016 pole maintenance cost was reduced to 86.81, if you scroll down, please, you can see that the 86.81 came from the total lines and forestry maintenance where we've added $4.08 for the lines per pole cost, plus the new forestry maintenance cost above, where we've changed the line-clearing to 87.4 and with our calculation is doing the math.

And the same -- that would be for the LDC rate. But in both these cases, in our evidence we divided the LDC and generation rate in two separate cases in the math, but it is identical in the next -- if you scroll down in the document it will show you the same now for -- actually, the table that's on the screen right now, you can see that we've adjusted it down 8 cents to 85.25, in where it says the ten-foot space -- or ten foot of power space, and then all our table with the calculation is all based on the amount of space they used divided by the total space times the total space on a pole, which I can explain later, but that's how we've done in the previous hearing. Okay?

So the black lines will identify where the changes are, and if you scroll down further, please, this is now the generator rates, and it's identical to what was done for the LDCs.

Just in conclusion here, I just want to say that the electronic copies will be filed with the OEB.

MR. QUESNELLE: Thank you.

MR. VEGH: Thank you. I believe there's nothing further.

MR. QUESNELLE: Thank you very much.

Mr. Segel-Brown.

CROSS-EXAMINATION BY MR. SEGEL-BROWN:

MR. SEGEL-BROWN: Hello, my name is Ben Segel-Brown. I represent the Vulnerable Energy Consumers Coalition. Given the technical nature of many of the questions that I am asking, I provided a copy of most of my questions to Hydro One's counsel yesterday, which should have been forwarded to the experts. I have distributed a compendium, but I'm afraid I ran out of time to get enough printed copies, so we'll have to rely on the electronic version.

With regard to the questions which are posed, the written questions which I provided in advance, my understanding is that Hydro One would be happy to provide written responses to those questions rather than addressing them orally.

MR. QUESNELLE: That's satisfactory.

MR. SEGEL-BROWN: Okay. So I will just have -- I will not use anywhere near the allocated time, but I will have some questions that are somewhat related or outside of the scope of the questions I provided in advance.

MR. QUESNELLE: That's helpful. Thanks for taking that approach.

MR. VEGH: Perhaps the best way to proceed then is to identify this document of advance questions for Hydro One panel 7 from VECC, identify that as an undertaking, and the panel will answer by way of an undertaking.

MR. QUESNELLE: We haven't seen that, I don't think. Do we -- is that in your compendium?

MR. SEGEL-BROWN: No, it is not.

MR. QUESNELLE: No. Well, if we can have that produced and marked was 10.4 -- K10.4, I believe, Mr. Sidlofsky.

MR. SIDLOFSKY: Sorry, as an undertaking or an exhibit?

MR. QUESNELLE: No, sorry, as the exhibit.

MR. SIDLOFSKY: I'm sorry, the list would be K10.4.

EXHIBIT NO. K10.4: VECC LIST OF ADVANCE QUESTIONS FOR HONI PANEL 7.

MR. QUESNELLE: Okay. And then we'll have -- the undertaking is to respond to those.

MR. SIDLOFSKY: And that would be J10.5.

UNDERTAKING NO. J10.5: TO RESPOND TO VECC LIST OF ADVANCE QUESTIONS FOR HONI PANEL 7.

MR. QUESNELLE: Okay. Thank you.

MR. SEGEL-BROWN: So with regard to the customer count forecast, my understanding is that the forecast is based on the percentage of -- the percentage increase in Hydro One's customers relative to the overall increase in Ontario, and you are applying that to the expected increase in overall households in Ontario; is that --

MR. ALAGHEBAND: Well, actually, this was the other way around, so we take the Ontario total number of customer forecast, which is based on consensus forecast for housing starts, and this is our starting point, and then we take the change in that number of customers and we say that, okay, that change as -- it may evolve over time, and we take the ratio of those changes and apply the change to number of customers in Hydro One as illustrated in the response to interrogatory that we provided to VECC already, and so we go for what that was, so we say, okay, what was the change in 2017 base year, and we say that, okay, the change in 2018 compared to '17 in total number of customers was supposed -- .99, we multiply change in 2017 times .99, and we add the result to 2017 arrive at 2018 numbers.

MR. SEGEL-BROWN: Okay. Have you validated that approach against historical data to see whether it's an accurate method of forecasting?

MR. ALAGHEBAND: Yes, that is what the methodology was always in our forecasting for distribution, so we have been using that in the previous distributions too.

This round they based on request in the interrogatory we provided the worksheet also in doing these calculations. We further examined these things by looking at, if this is relevant in terms of load, so we look also at the initial load compared to -- in return, compared with the actual load in Ontario as a whole, so everything looks fine.

MR. SEGEL-BROWN: I'm not sure I got a clear answer there with regard to whether you've verified that this approach is accurate when you've applied historically.

MR. ALAGHEBAND: Yes, well, we have been doing this for a long time, and the forecast accuracy was very good, so that's our answer, yes.

MR. SEGEL-BROWN: Can you -- you applied the same approach to the acquired utilities, correct?

MR. ALAGHEBAND: That's correct.

MR. SEGEL-BROWN: Did you consider looking at other data sources regarding the growth in dwellings in those centres' subdivisions covered by the LDCs? Because I can see why the general Ontario rate would be directly applicable to Hydro One, but the circumstances in a particular acquired utility may deviate more from the overall Ontario average.

Did you consider other data sources to determine whether the province-wide rate was appropriate?

MR. ALAGHEBAND: The problem that we have is that we don't have data at locality. There is no forecast, there is no consensus forecast for, say, Norfolk or any other locality. What we have, based on large numbers, we have acquired and consensus forecast for Ontario as a whole. We look at the relation between growth in customer in Ontario compared to growth in customers in, say, Norfolk and we arrive at the ratio. We said, okay, historically it looks like, you know, one was the square factor of the other, and we verified that. This is just a square factor, so we keep that a square factor, and we will forward according to that one.

MR. SEGEL-BROWN: So the way that you are controlling for that is that you are looking at the number of houses that were added in Norfolk rather than just the population?

MR. ALAGHEBAND: That's right.

MR. SEGEL-BROWN: In your updated forecast in Staff 219, the number of housing starts increase but the forecasted customer count is lower. Can you explain that inconsistency?

MR. ALAGHEBAND: Yes, if you compare the number of customers, residential customers, in a Staff 219 with what we filed originally for the year 2017, we see that that number is lower. I have the two numbers here. If you want I can give it to you, but it is already in evidence.

And so we are starting with a lower base, and then from there on we apply the growth rate -- growth in the number of customers, in the changing of number of customers, to that lower base, so we end up having a lower forecast, obviously.

And the rate of change in the total number of customers in Ontario also matters, so if it is more front-loaded we end up having high forecast, if it is less front-loaded we end up having lower forecast, and it happened to be the case in this -- in 2019.

So, for example, we have lower growth in the number of customers in Ontario as a whole compared to the -- what we had in the original filing.

MR. SEGEL-BROWN: Thank you. I'll skip my questions related to reclassification, because I think those are -- can really only be answered by way of undertaking.

MR. ALAGHEBAND: Yeah, that's okay.

MR. SEGEL-BROWN: So I had one question from the previous panel that was referred to this panel which relates to the time study and, in particular, the rate which is specified for clerical employees, which appears to be $80 an hour. Can you explain that?

MR. BOLDT: Yes. Sorry, just give me a second here.

So where I'd like to point you related to the 80.08 for the 2018 labour rate is the -- to I54, Staff IR 258, please.

So in the time study, in our answer -- once it comes up on the screen -- we were asked in this IR to explain what was within the rate of 74.70 and that was for 2016. And the answer to your question is what's within the 80 is identified in part A, where it's the employee remuneration including base labour and any allowances paid, supervision and technical support, administrative expenses, and health and safety costs to help and deliver the training.

MR. SEGEL-BROWN: Is there somewhere where you benchmarked these costs against other -- because I know you just in-sourced this from Inergi, so presumably you've done this analysis of what the costs would be with different options.

It just strikes me as, you know, higher than what we'd expect for the kind of labour.

MR. BOLDT: Yes, so we obtained these labour rates from our labour financial panel, the financial people within our organization, and it may have been this question could have gone to Mr. Jodoin in a previous panel.

But my it's my understanding that the labour rates are within C1, Tab 3, schedule 1, attachment 1, how he's developed those costs.

MR. SEGEL-BROWN: Okay. Can we pull that up?

MR. BOLDT: So is this C1, tab 3, schedule 1, attachment 1? I was told it's schedule 1, attachment 1, yes.

I'm really not the person to defend this labour rate. I just wanted to bring to your attention that this is where it's filed and this is where it's been produced, because it was an exhibit that our financial panel should have been addressed.

MR. SEGEL-BROWN: Okay. So with regard to the general service customer count forecast, Bill Harper also noticed that the underlying driver of GDP had also increased between your forecast, so it is a more positive economic projection between the original and the update?

MR. ALAGHEBAND: That is correct. What I should inform you, though, is that the 2017 actual for GDP went up, but the growth rates -- when you look at the growth rates they're different.

So it is not the level -- I saw the questions here, the list of questions. In that one, the level of GDP was shown, not the growth rates. They are referring to growth rates of that one to calculate the growth in general service customers.

So even if the base is higher, it doesn't mean that the growth rates would be higher, and it doesn't mean that all the load forecast has to go up. It's simply -- again, it is based on if the growth rates are front-loaded or back-loaded and there is -- another factor is that the base for the number of general service customers also matters and normally general service customers were lower, so when you apply this growth to a lower base you end up having a lower forecast.

It was in the Excel worksheet that was provided.

Actually, you can check the math there and know it is correct.

MR. SEGEL-BROWN: I think the next one is also best answered by way of undertaking, and the retail class forecast is also best answered that way. Sorry, I didn't have time to sort through and exclude those which...

So could we turn our minds to the CDM forecasts?

MR. ALAGHEBAND: Yes.

MR. SEGEL-BROWN: So my understanding is the forecast is based on Hydro One's share of the total impact of energy programs estimated by IESO; is that right?

MR. ALAGHEBAND: That is correct for energy efficiency, yes.

MR. SEGEL-BROWN: So it's not based on a specific forecast of Hydro One's activity, but rather the percentage of overall activity?

MR. ALAGHEBAND: It would have been just a planning assumption, if you wanted to do it that way. So we are looking at what, in Ontario, planning handbook is there for Ontario as a whole. We take what is there and we apply the portion of Hydro One's share in that, and that share is based on actual utilization rate that we had in the past.

MR. SEGEL-BROWN: The remainder are best answered by the undertaking.

Could we turn to I46, Staff 219, and could we go down to table 4?

MR. ALAGHEBAND: Table 4, yes.

MR. SEGEL-BROWN: So Bill noticed that the CDM forecast for the retail classes changed marginally for some years. Is that just a rounding change, or did you update the basis for your CDM forecasts for retail customers for the purposes of this update?

MR. ALAGHEBAND: The CDM forecast in total was not changed, but allocation of CDM between different rate classes was affected by the 2017 actual when we updated the forecast.

So for example, when Ontario Power Authority provides a number for energy efficiency, that is for all the customers included in the SD class direct -- not LDCs, but SD class direct -- and legacy retail customers.

So those numbers were changed. So actually, allocation between direct and retail customers was moved a little because of the different allocation, different actual numbers that we had for 2017.

For LDC, it changed significantly because -- I mean, it went down because LDC 2017 actuals went down substantially, so its share of CDM also declined. That is just a, you know, implication of having much lower sales at 2017 to start with.

MR. SEGEL-BROWN: So the lower base for 2017 led to a lower share being --

MR. ALAGHEBAND: Lower share of LDCs in that one, yes.

MR. SEGEL-BROWN: Could we turn to I55, CCC 75. So I clarified with an earlier panel that Hydro One is only seeking recovery of lost revenue due to CDM from the impact of -- in 2018 from 2017 and '18 programs, in 2019 from 2017 to '19 programs, and so on, so it is not reaching back before 2017.

In this -- in this table, the CDM for 2018 is 842 million kilowatt hours, approximately, which appears to be more than the total for 2017 to '18 and, indeed, more than the totals for the years 2015 to 2018, so could you clarify what, for the year 2018, are the total savings in kilowatt hours that you are proposing to use for the purposes of lost revenue due to energy efficiency programs?

MR. ALAGHEBAND: The sum that you see at the last line on this table -- Okay. On the last line of the table there is a sum shown that the question is referring to. That sum is not actually correct. For whatever reason we noticed later on, you know, that, for example, for 2015, the bottom line should have read 193, 171, exactly what is all there in line number 1. In 2016 it should be the sum of the two lines that is shown up there for 2015 and '16.

So the bottom line is actually showing some of the figures which are shown above that, above that cell. So that sum is not correct, and the correct version was actually already provided in Exhibit E1, tab 2, Schedule 1, attachment 2 as part of the original filing, and in that one the sub-collection was shown.

So perhaps if you have any questions we can go back to that one and see what are the -- what the question would be, or if you want we can discuss it here, but -- the '18, for example, of course goes up, because we add one more year.

MR. SEGEL-BROWN: Yes.

MR. ANDRE: Just to clarify, though, the amounts that would be used for the purpose of the LRAM variance account would be the incremental change --

MR. ALAGHEBAND: The second tab.

MR. ANDRE: -- between the years.

MR. ALAGHEBAND: There's a tab. There's no tab? There is one tab for CDM, one for the forecast. This is for the forecast.

MR. ANDRE: So, yeah, I guess we're trying to confirm, and I can confirm Mr. Alagheband's statement that the correct table with the correct totals on the bottom line do appear in Exhibit E1, tab 2, Schedule 1, attachment 2, but I think you had asked whether, you know, those totals -- how the totals are changing, and I just wanted to clarify that.

MR. ALAGHEBAND: Here it is here. Yeah. At the bottom we see the sum. This is the correct sum. The same number's at the top, and the bottom line is correct now.

MR. ANDRE: So perhaps you can ask your question again with reference to the correct numbers as shown in this table.

MR. SEGEL-BROWN: Okay. So that solves the numbers in the chart not adding up to the total issue.

MR. ALAGHEBAND: Yes, that's right.

MR. SEGEL-BROWN: But I've been told earlier that the lost revenue variance account is only recovering revenues from -- lost revenues from energy efficiency programs from 2017 onwards; is that correct?

MR. VEGH: Could I just clarify, when you say you've been told elsewhere, do you have a reference for that?

MR. SEGEL-BROWN: Sorry, this is from Bill Harper, my consultant. It's not -- oh, for the being told? Yes, that is transcript Volume 3, page 122, but...

MR. VEGH: If we could pull that up just to clarify what exactly you were told.

MR. ANDRE: We can look that up. I can also confirm that during the technical conference there was a specific question that came up that asked that very question, if we could confirm what we're asking for, collection in the LRAM VA, so JT3.18-4 asked that very question, same question, and the response was confirmed in that undertaking response that, as you said, Mr. Segel-Brown, is the -- we are requesting for -- in '18 for the '17/'18 incremental CDM amounts and then in '19 for the incremental CDM amounts in '17, '18, and '19, and then for '20 the incremental CDM amounts in '17, '18, '19, and '20.

MR. SEGEL-BROWN: That was my understanding.

So the source of my confusion stems from the chart which seems to be showing the cumulative energy efficiency savings back to 2015, so can you clarify -- perhaps this could be done by way of the undertaking, but could you provide that chart showing the total savings in kilowatt hours you are proposing to use for 2018, 2019, to 2020? Because it didn't seem to be shown in the chart that we were looking at earlier, which was totalling back to 2015.

MR. VEGH: If we can identify the chart as well. I want to make sure the undertaking is clear. Which chart are you referring to? Is that the --

MR. SEGEL-BROWN: That's the 55 CCC 75. This one as well.

MR. VEGH: Okay. So --

MR. ALAGHEBAND: We are -- okay. Let me clarify. We are tracking the total change, okay, so when we look at the bottom line again, it -- '15 has to be there to have the total for '15. '16 has to be there to have total for '16 and so on. So those numbers need to be there, because there is a persistent associated with that, so whenever you want to calculate what is the variance account here, is we plug in all the actual numbers for '15, '16, '17, whatever it is. For example, if you are doing it in '19 for variance account for '18, by that time even '18 actual numbers were available, so we plug in all those numbers and we calculate the sum again, and then we see that, okay, the incremental amount going from '17 to '18 was, I don't know, suppose 300, whereas here we were saying 200, then it means that we achieve more CDM, or it could be going the other way around. Perhaps the actual comes a smaller number.

So the way we have to calculate it is having the full table, because we need to account for persistence of programs starting in 2015 and also '16 and '17 and so on.

We need to account for that one too.

MR. ANDRE: So if I could just add: So the table needs to show the totals, as Mr. Alagheband has described, but for the purpose of the LRAM variance account, what you track against and put into the account is the incremental change between, you know, '16 to '17 and '17 to '18, so it is the incremental difference that is getting tracked in the LRAM variance account, but the table needs to show the totals going back to '15 for the reasons Mr. Alagheband said.

MR. SEGEL-BROWN: So what I'm hearing now is that the savings forecast for 2018 will include the continuing impact of programs from 2015 and 2016.

MR. ALAGHEBAND: There was, for example for 2015, we are going to plug in the actual, actual verified results from IESO, and IESO at that time would provide the persistence of 2015 programs going all the way to 2020.

So we would have the first line in terms of actual numbers. The second line would also be all the actual numbers. But for '17, I suppose in 2018 we would have '17 also within the actual terms, going not only in '17, but also it's persistent up to 2020, this time IESO verifies with us.

Then we have to wait for '18 results to come in, and that would be coming in '19. Once we get it, then we can start calculating the variance account.

The variance account is only calculated based on what is the incremental difference between what we are saying here to compare to what, after putting the actual numbers in, from going from '17 to '18. We are not asking variance account for '17. We are asking variance are variance account for '18. So that number becomes available in 2019, when we have the verified results from IESO.

So this table provides what is the current sum, The current sum of the numbers for '17 and '18, which includes no earlier numbers for 15, '16 and so on. And then the table that would be updated in 2019 would include all the first four lines updated already, have actual numbers in, and then we with can calculate the new sum easily from, you know, and then we compare the differences.

We say, okay, our incremental difference going from '17, to '18 was supposed 300, now the actuals came in and say 200, so it is lower and so we have to pay back something like 100, equivalent of 100 kilowatt-hours in terms of the -- times the dollar.

So there are times the dollar amounts, you know, I mean we don't give that to ourselves. Of course we give back the dollar equivalent of that, yes.

So all these numbers are actually needed; that's what I'm trying to say. What we are proposing, what is there to start with and when the actual comes in 2019, we would have results, all the numbers you see in the first line would be in actual terms from IESO. So we get 2015 actuals verified and its persistence going all the way to 2020 and so on.

So we would have all these numbers up to '18 actual, and then we can calculate the sum again and then check the difference going from '17 to '18. We compare that difference with the difference that we have now, so that would show how much, you know, variance account would be there.

MR. SEGEL-BROWN: So the answer that I was provided with earlier was that for 2018, this is only accounting for the impact of 2017 and '18 energy efficiency programs.

But what I'm hearing from you now is that it's also accounting for variance from these results to actual results for prior years, is that right?

MR. ALAGHEBAND: Well, the two estimates were the same. We are saying that what is the total it's '18 compared to '17. To have the total for '18 for energy efficiency, we need to have the earlier results also available. So there is no other way to do it.

If you want to have the total, you have to go back all the way to 2015.

But this is only energy efficiency because of the -- that is where we say we can focus on energy efficiency. We are not tracking, you know, for example, code and standards because there is no verified results for code and standards. We cannot do that.

So when we are referring to '18 and '17 results, we are referring to the bottom line, not just the line on the '18.

MR. SEGEL-BROWN: So my concern is that the difference between 2018 and 2017 doesn't capture the impact of programs implemented in 2017 and 2018. It also captures the impact of programs implemented back to 2015.

So are you saying now that those historical energy efficiency savings are going to be included in the lost revenue variance account?

MR. QUESNELLE: What I understood the answer to be is they have to be calculated so that they are not included and the persistence has the effect of netting out.

MR. SEGEL-BROWN: Is that what you are saying?

MR. ALAGHEBAND: Normally, the persistence would cancel out this from year to year. But to have the '18 results compared to '17, we need to have -- for all the years, you know, we can't calculate what we have. At least, that is what we have here.

MR. SEGEL-BROWN: So you are netting out ...

MR. ALAGHEBAND: No, we are not netting out. It automatically would net out anyways. The earlier years, for example '15 -- '18 and '17 results would be very similar; persistence results for '18 and '17 would be very similar. They would automatically net out.

But technically, to have the sum correct, the total sum at the bottom line, we have to include the '15 in the calculation. But it tends to net out anyways.

MR. SEGEL-BROWN: Is there a baseline value you are using for true-up purposes?

MR. ALAGHEBAND: The baseline value that we have in this is this table. This is what we are saying, that the programs, the CDM program that we are having, it is this one, and then we want to see -- compare that to what would have been when all these numbers become actual. And then we can compare actual with the pro forma statements.

MR. SEGEL-BROWN: So the next question was asking for the live version of the Excel spreadsheet, so that would also be best answered by way of the undertaking.

If we turn to Exhibit G1, tab 3, schedule 1, attachment 1 ...

MR. ANDRE: Sorry, could you provide that reference again?

MR. SEGEL-BROWN: Exhibit G1, tab 3, schedule 1, attachment 1. I don't have these neatly lined up with my compendium page numbers, but there is a sheet in there somewhere. Yes, this is it.

So am I correct in understanding that this is the model used to allocate the proposed revenue requirement between the rate classes?

MR. LI: I'm sorry, I'm a little bit slow. Can you -- can you give me a minute to get to the reference?

MR. SEGEL-BROWN: It's tab 27 of my compendium.

MR. LI: Oh, oh.

MR. SEGEL-BROWN: Page 93.

MR. LI: Yes, that's correct.

MR. SIDLOFSKY: Mr. Segel-Brown, I'm going to interrupt you. I don't think your compendium was marked as an exhibit yet. So that will be Exhibit K10.5.

EXHIBIT NO. K10.5: VECC CROSS-EXAMINATION COMPENDIUM FOR HONI PANEL 7

MR. SEGEL-BROWN: So in order to establish the revenue by customer class, the model determined what the revenue would be by customer class using the 2017 rate and applies a common 5.35 percent mark-up to all customer classes, so that the total revenues, including miscellaneous revenues, equal the total revenue requirement, is that right?

MR. LI: Yes, that's correct.

MR. SEGEL-BROWN: And the ratio of these revenues to the allocated costs are what is referred to as the status quo revenue-to-cost ratios? I'm not sure where those are.

MR. LI: Yes.

MR. SEGEL-BROWN: So we would expect to see the same mark-up across all of the customer classes; right?

MR. LI: You mean the factor of 1.0535? Is that what you're asking?

MR. SEGEL-BROWN: Yes.

MR. LI: Yes.

MR. SEGEL-BROWN: Do you have the reference for...

Okay. So I want to look at the proposed revenue-to-cost ratios and rate increases for customer class for 2019.

So this is Exhibit H1, tab 1, Schedule 1. Oh, it is page 97 of my compendium. Probably easier.

MR. ANDRE: And what page of Exhibit H1, tab 1, Schedule 1?

MR. SEGEL-BROWN: Pages 9 to 10.

MR. ANDRE: We're there.

MR. SEGEL-BROWN: So here you indicate that you're proposing for 2019 to increase the revenue-to-cost ratio for the DGen class and to decrease the ratios for USL, seasonal, and R1 classes with no adjustments to the ratios for other classes?

MR. LI: You are talking about 2000 and -- you're talking Table 6, right?

MR. SEGEL-BROWN: I think so.

MR. LI: Yeah, so, yes, USL, seasonal, and R1; that's correct.

MR. QUESNELLE: Was it '17 to '18?

MR. LI: Oh, you're talking '17 to '18?

MR. ANDRE: Or '18 to '19, yeah.

MR. QUESNELLE: Or '18 to '19.

MR. SEGEL-BROWN: It is '18 to '19.

MR. QUESNELLE: Okay.

MR. LI: Yeah, that's correct then. So it is R1, seasonal, and USL; that's correct.

MR. ANDRE: Just to clarify, though, the -- you said -- was your question we are proposing to increase or change the revenue-to-cost ratios? The methodology changes the revenue requirement to be collected, in that -- and the revenue-to-cost ratios fall out of that, so there isn't -- it is not that we change the ratios and let that drive the revenue requirement. It is that the revenue requirement is changed as per the methodology described in the exhibit and then that drives the resulting revenue-to-cost ratio.

MR. SEGEL-BROWN: Okay, could we turn to I28, VECC 97.

MR. LI: Yes.

MR. ANDRE: We're there.

MR. SEGEL-BROWN: Can we pull that up too? I --

MR. ANDRE: It's I48, VECC 97.

MR. SEGEL-BROWN: Oh, sorry, did I misspeak?

So we're going to the answer, part D.

MR. LI: B?

MR. SEGEL-BROWN: D. D as in dentist, --

MR. LI: Yes.

MR. SEGEL-BROWN: -- the table below.

So the question is: Why are the rate increases not the same for all customer classes? Why are some 3.6 and some 3.7 if they are falling out from the change in revenue requirement to CZ?

[Witness panel confers]

MR. LI: Okay, for most classes the change is pretty well the same. Now, there are two reasons why some of them are different. If you look at DGen, that is -- there is a change of revenue-to-cost ratio there. And if you look at 2019, I know it's very small, you don't see it, but R1, seasonal, and USL are also affected by that change, because when you shift the revenue cost ratio of DGen it affects the other three classes, so those minor change, but you'll see it.

And then the Sentinel lights, that blue one that stands out, 6.9, that is because of a pretty big change -- charge determinant in 2019 from 2018.

MR. SEGEL-BROWN: Okay. Is there a particular explanation for the difference between the 3.6s and 3.7s; is it just rounding, or...

MR. LI: It could be the charge determinant, right, but it's small change, but is close.

MR. SEGEL-BROWN: So you mentioned the R1 rate class there. Bill noted that the revenue-to-cost ratio is being reduced but its rate increase is the slightly higher 3.7; can you explain that result?

MR. LI: It's slightly higher than what?

MR. SEGEL-BROWN: Well, it's getting 3.7 increase rather than the 3.6 increase, even though its revenue-to-cost ratio was being reduced, which you said was the driving factor to these changes.

MR. LI: It could be charge determinant, too. But between 3.7 and 3.6 it could be because of charge determinant.

MR. SEGEL-BROWN: Okay.

MR. ANDRE: Yeah, so the revenue to be collected is uniformly applied across the rate classes, as you said, but then in terms of the impact on rates, the -- what's actually happening to the charge determinant of each individual class would impact the rate, so to the extent that each individual class isn't necessarily growing at the same rate or the number of customers are growing at the same rate, if it's growing slightly different than the average across all the classes, that is what could drive those -- all differences. So --

MR. SEGEL-BROWN: So differences in customer growth, you're thinking.

MR. ANDRE: Yes.

MR. LI: And load -- yeah, customer and load, yes.

MR. ANDRE: Other than, as Mr. Li mentioned, the change in the DGen class, where there that is a conscious change in the revenue-to-cost ratio because they are so far outside the range that we had to make an adjustment or we continued to make an adjustment both in '18 and '19 on the revenue-to-cost ratio.

MR. SEGEL-BROWN: I'm going to turn now to the cost for the acquired utilities. Let me see if I can get a tab there.

So could we turn to -- could we turn to Exhibit G1, tab 3, Schedule 1? Do you have that?

MR. LI: What page?

MR. SEGEL-BROWN: Pages 5 to 8?

MR. LI: Okay.

MR. ANDRE: We're there.

MR. SEGEL-BROWN: So this shows the adjustment factors that are applied to the fixed asset accounts and depreciation cost initially allocated to your new rate classes for acquired utility customers that you are introducing.

MR. ANDRE: Yes, you are referring to the evidence that starts under section 2.2.3?

MR. SEGEL-BROWN: Under 2.2.3? I'm not sure what the 2.2.3 you are referring to is.

MR. ANDRE: Oh sorry, your reference was Exhibit G1, tab 3, schedule 1?

MR. SEGEL-BROWN: Pages 5 to 8, yes.

MR. ANDRE: So if we have that on the screen. You referenced -- there's a number of items on that table. I just wanted to make sure I was in the right section. So table 5 -- I mean page 5, rather, page 5.

MR. LI: Scroll down.

MR. ANDRE: So there is, as I said, a number of things. But down on line 15, the discussion on the new acquired rate class adjustments starts out. I'm just confirming that is what you were referring to.

MR. SEGEL-BROWN: Yes.

MR. ANDRE: Okay.

MR. SEGEL-BROWN: So the general purpose here is to align the costs that are allocated to these classes with a cost to serve the acquired utility customers, in terms of the additional costs being added to Hydro One Networks distribution system as a result of the integration of the three acquired utilities in 2021. Is that right?

MR. ANDRE: Yes, that's correct.

MR. SEGEL-BROWN: Could we turn to technical conference undertaking JT3.26. So JT3.26-3D.

MR. ANDRE: Yes, I'm there.

MR. SEGEL-BROWN: Do I understand this response to say that you'd expect the cost allocation model to be providing an appropriate allocation of cost relating to any new capital spending made after 2021, and therefore such spending would not need to be subject to an adjustment factor? I'm looking at D there.

MR. ANDRE: Are you looking -- is there a specific part? Part C?

MR. SEGEL-BROWN: Part D.

MR. ANDRE: So part of the reason for integrating the acquireds by developing the adjustment factors is once those adjustment factors are established as part of this proceeding, then going forward you would just do your normal inputs to the cost allocation model, which would include Hydro One's total capital spend, total OM&A spend, and then the -- that total spend would get allocated to the acquired classes and the adjustment factors as developed here would be applied.

So to the extent that there is growth in capital spending which drives a growth in the rate base-related components, those would be reflected in Hydro One's total cost. So that increase, incremental increase would be reflected in Hydro One's total cost, and therefore the acquired classes would attract a share per the adjustment factor of that increased spend.

MR. SEGEL-BROWN: But the adjustment factor would still have to be applied to capital related costs incurred up to 2021, as is done in the current filing?

MR. ANDRE: The adjustment factors would be applied to the total costs of Hydro One in the year that we're running the model. So that means that the adjustment factors would apply to all of the costs up to that point in time, including any in incremental growth in the rate base related or OM&A costs since the previous filing.

So it wouldn't -- the adjustment factors apply to the total.

MR. SEGEL-BROWN: Yes, okay. Wouldn't the adjustment factors change over time as the portion of total capital-related costs subject to adjustment changes annually, with the addition of new capital spending?

MR. ANDRE: Yes, you're correct, and I do believe we had an interrogatory, or a technical conference response -- yes, I agree they do.

So imagine over the 40 years, as all of the assets that are used to serve the acquired utilities have now been replaced at Hydro One's cost, you wouldn't need an adjustment factor anymore because the costs would reflect -- you know, once you go through the full life of an asset, you wouldn't need to adjust for the fact that, you know, the original assets were installed at that acquired utilities' cost.

Now, after the end of life of these assets, it will reflect Hydro One's cost of providing those assets and therefore the adjustment factor, you know, can be updated. And as I say, I don't have that reference. I can get it for you after the break, in terms of we responded that yes, we would look at the adjustment factors over time to see -- to the extent that they needed to change.

MR. SEGEL-BROWN: Doesn't that mean that you'll need to separate the capital assets that were put in place as of 2021 from those which are put in place after 2021, to determine the adjustment factor which should apply?

MR. ANDRE: I think -- I mean, there's going to be potential in the future a number of things that could impact those adjustment factors, including future acquisitions. And if those future acquired utilities were integrated into these new acquired classes that we've created, that would impact the adjustment factor.

So there would be a number of things could potentially impact the adjustment factors, certainly not in -- I mean, this is something, as I said, that becomes an issue over a period of 10, 20 years as the amount of assets that are serving those acquired customers are renewed or replaced.

It is certainly not something we see in the next five or ten years, but there would be a number of things that could potentially impact the adjustment tractors which we'll have to take into account at that point in time.

We haven't -- I can't tell you now what would be required to make that change to the adjustment factors, but I do agree that they should be revisited.

MR. SEGEL-BROWN: Okay. And you'd be -- I think I heard in there that one of the factors that would be affecting the adjustment factor would be the capital which has been added since 2021, as opposed to before.

MR. ANDRE: Yes, I would agree.

MR. SEGEL-BROWN: Okay. The next set of questions relates to reconciling different gross book values, which is probably best answered by way of undertaking. I believe it's included in the questions.

This one relates to a discrepancy in OM&A costs, which could also be done in writing.

Can you please turn to undertaking JT3.18-19?

MR. ANDRE: Yes, I'm there.

MR. SEGEL-BROWN: It's page 118 of my compendium.

MR. ANDRE: JT3.18-19.

MR. SEGEL-BROWN: On the next page, we have a table that captures Hydro One's revenue requirement as a result of the integration of the three acquired utilities.

Am I summarizing that correctly?

MR. ANDRE: Yes, that's correct.

MR. SEGEL-BROWN: And to be clear, the 36.9 million estimated here is your estimate of what the combined 2021 revenue requirements for the three utilities would be if they continued as stand-alone utilities?

MR. ANDRE: Yes. I would note one thing, however, with respect to the depreciation costs. The actual cost under status quo for depreciation would be an additional 2.1 million because the depreciation, as it's calculated in that table, is with reference to the gross book value of the acquired utilities when they migrated or were integrated into Hydro One.

So at the time that they were integrated, the -- they were brought into Hydro One's rate base on the basis of the net book value that existed at that point in time. When they were brought in with Hydro One for the purpose of determining the status us quo costs, depreciation should really be based on the original GBB, gross book value of assets, escalated to 2021. So by my calculations, that would add an additional 2.1 in depreciation costs for a total of 36.9 plus 2.1, so for a total of 39.0, and, yes, that would be our estimate of the acquired utilities' status quo costs.

MR. SEGEL-BROWN: Okay, could we turn to page 121 of the compendium, which is 56 SEC 96, so in part B refers to combined classes. Can you confirm that that's referring to acquired customers who are not segmented into a separate acquired customer class but rather included with Hydro One's existing customer classes, such as streetlighting?

MR. LI: Yes.

MR. ANDRE: I can confirm that.

MR. SEGEL-BROWN: So the total allocated to those customers is 1.5 million; that's in part B?

MR. ANDRE: Yes, that's correct.

MR. SEGEL-BROWN: Now, if we go through the response and sum up the costs allocated to the six new acquired customer classes in 2021, the OM&A comes out to 16.4 million, depreciation -- depreciation comes out to 11.5 million, 4.9 million for interest, 6.9 million for return on equity, and 1.6 million for payment in lieu of taxes, for a total of 41.3 million, which is roughly equivalent to the response given in SEC 96E.

MR. ANDRE: Yes, with reference to 41.2, so, yes, there is a rounding on one of those numbers, but, yeah, 41.3 would be the -- I would agree is the total revenue requirement that's being allocated to the acquired classes.

MR. SEGEL-BROWN: And in part E3 you indicate that the overall cost allocated in 2021 to the acquired customer classes are 41.2 million, and you're proposing to collect

34.9 million from those customers?

MR. ANDRE: Yes, so the 34.9 reflects the rates that we're proposing to charge the acquired customers, and given that they're not at a perfect revenue-to-cost ratio of 1, they're below that, we don't recover 100 percent of the costs.

Like all classes there's a range of acceptable revenue-to-cost ratios. We make sure that the acquired classes are moved to within that range, but the rates that would be proposed would collect 34.9 million in revenue, yes.

MR. SEGEL-BROWN: So in terms of confirming that the acquired customers are better off as a result of the acquisition, wouldn't it make more sense to compare the 34.9 million you plan to collect from the six classes with the 36.9 million that is estimated standalone revenue requirement for the three utilities, rather than with the total cost allocated here?

MR. ANDRE: I would agree that the appropriate comparison is looking at what ultimately matters to customers, which is the rates that they are going to see on their bill, and so the 34.9 reflects the rates that we're proposing to charge and the -- both the bill impact sheet per the Board's methodology or the bill impact sheet that was submitted as part of Exhibit Q that looked at what we're proposing to charge versus the escalated rates, what we would estimate the escalated rates, both of those are comparing to the rates that fall out of 34.9, so I would agree that an appropriate comparison is the rates that we're proposing to charge as opposed to the allocated costs.

MR. SEGEL-BROWN: Okay, would you confirm that it's the allocated -- would you confirm it's the allocated cost to acquired classes that are used to determine the revenue-to-cost ratios and the need for class revenue adjustments?

MR. ANDRE: Yes, that's correct.

MR. SEGEL-BROWN: Okay, so is the fact that the revenue you propose to collect is greater than the standalone cost something that the Board should be mindful of when considering the appropriate revenue-to-cost ratios for these classes, where the revenue you are collecting is 36.9 and the --

MR. ANDRE: Do you mean 34.9?

MR. SEGEL-BROWN: Yes, 34.9.

MR. ANDRE: Right. And, sorry, could you repeat your question? Yes, that's the revenue proposed to collect and...

MR. SEGEL-BROWN: So isn't the standalone costs -- I'll skip that one.

MR. ANDRE: If you are asking -- the previous undertaking that you took me to showed that the status quo revenue requirement associated with the acquired utilities was -- on that chart it as 36 plus 2.1 in additional depreciation, so that was 39 million. That is the actual cost of serving the acquireds.

The revenues that we're proposing to collect from the acquireds based on the rates that we're proposing is 34.9, and so I would agree that the rates that we're proposing is collecting less than what we would say -- or what is the -- what would be the status quo revenue requirement for the acquired utilities had they not been acquired.

MR. SEGEL-BROWN: Okay. Could we turn to page 127 of my compendium. So this is still relating to the bill impacts that would have occurred but for the acquisition of the LDCs.

MR. ANDRE: Yes.

MR. SEGEL-BROWN: So we're looking specifically at the page -- this is page 21 we're looking at, which describes the way that you estimated what the rate and bill increases would have been without the acquisition, so it seems that a critical assumption here is the 6.3 percent average increase would apply to the acquired utilities in the absence of -- in the absence of the acquisition?

MR. ANDRE: Yeah, for the year, so we would have used the IRM increases appropriate for years where they would have IRM, and then for the years where they would have been under a cost of service we used the 6.3 percent figure to make the adjustment in those years, yes.

MR. SEGEL-BROWN: And the 6.3 percent is based on the average of the increases implemented by utilities you rebased in 2015 to 2017, right?

MR. ANDRE: Yes, that's correct.

MR. SEGEL-BROWN: So if we turn to page 129.

MR. QUESNELLE: Mr. Segel-Brown, if you get to a spot where it's convenient to stop, we'll take a lunch break, unless you are just about finished.

MR. SEGEL-BROWN: I think I have about three more areas of questioning, so maybe another 15 minutes.

MS. LONG: Okay. Why don't we take a break, and that will give you a chance to -- I recognize you are doing things on the fly, but I appreciate the manner in which you've approached this, but if you will take the break to condense your questions.

MR. SEGEL-BROWN: Thank you.

MR. QUESNELLE: We will resume at ten after 2:00. Thank you.

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

--- On resuming at 2:15 p.m.

MR. QUESNELLE: Mr. Segel-Brown?

MR. VEGH: Just before he does that, Mr. Andre has a clarification with respect to Ms. Anderson's question about the audits and the accounts that are covered by the audits.

MR. QUESNELLE: Okay.

MR. ANDRE: So I believe that we've put in front of you a letter that came from the OEB with regards of the audit process.

If you want to go to page 2 of that letter, the second paragraph down -- Ms. Anderson, what we were saying was correct with respect to the main focus of the audit is the power related accounts.

Here they refer to the RPP settlement process, but then they say concurrent with that, they will also be assessing the allocation methodology that Hydro One's uses to split the variance account balances between Hydro One and the acquired utilities.

So because they're looking at the allocation methodology, that will impact all of the group 1 variance accounts. So you are correct; the proposal would be for all group 1 to be just to the end of 2014, and then we'll dispose of the '15, '16 balances at a future date.

MS. ANDERSON: Sorry, do we have those balances, or do we just have the ones that you are proposing to dispose of?

MR. ANDRE: I mean, there's continuity schedules. I don't know if it's spelled out that -- yes, they would be on the record, they would be on the record.

MS. ANDERSON: In the continuity schedule?

MR. ANDRE: Yes.

MS. ANDERSON: To the end of '14.

MR. QUESNELLE: Thank you. Thank you for that. Mr. Segel-Brown?

MR. SEGEL-BROWN: So before the break, we were talking about Hydro One's assumption that but for the acquisition, the acquired local distribution companies would have had a 6.3 percent rate increase.

So there's substantial variability in the rate increases which have been granted to different LDCs.

So my question is: What basis do you have for assuming that the 6.3 percent will be reasonably representative of what these acquired utilities would have faced as a rate increase, if on a stand-alone basis?

I'm not sure your microphone is on.

MR. ANDRE: Sorry. So the approach that we used, it was described in Exhibit Q1-1, and Exhibit Q1-1 actually in -- let me find it here. In Exhibit Q1-1, attachment 5 -- I'm sorry, attachment 6 has a reference to the -- all of the utilities that were used -- yes, has a reference to all of the utilities and the rate increases that were used to derive the 6.3 percent.

And that approach of using the average increase of the -- of a basket of utilities is something that the OEB has used before for the purposes of setting Remotes' and Algoma's rates. They've used that approach and there was a -- in the MAADs acquisition for Cambridge Utilities, they also in their application had proposed a methodology that did the same thing, that leveraged the average cost of service increase as a basis for escalating the acquired utilities' rates.

So the basket of utilities and their rate increases that form the basis of the 6.3 percent are provided in attachment 6 of Exhibit Q1-1.

MR. SEGEL-BROWN: But beyond the fact that this is a methodology which has been adopted the by the Board in other proceedings, there was no analysis of whether the rate was likely to be applicable to the particular circumstances of these three acquired LDCs?

MR. ANDRE: We were looking -- so Hydro One has been very clear that it's an estimate of what that would be, and it's a, you know, an average increase. I believe SEC also asked a number of -- an interrogatory that explored the use of that number, and we believe it's a reasonable increase under the cost of service.

Certainly the average of the other utilities who have gone through a cost of service that included both large and small utilities have shown that kind of increase.

So we believe it's a reasonable basis for estimating what that increase would be.

MR. SEGEL-BROWN: Okay. Could we turn to page 137 of my compendium?

MR. ANDRE: What do you refer to in --

MR. SEGEL-BROWN: This is Exhibit I, tab 49, VECC 98.

MR. ANDRE: Just give us a sec to turn to that. We're there.

MR. SEGEL-BROWN: So this question relates to the year over year of rate differences which arise from Hydro One's proposal would be transitioned to fixed charges.

Now, the transition periods were approved by the Board in EB-2015-0079. Is that the right reference?

MR. LI: Yes, that's correct.

MR. SEGEL-BROWN: Would it be fair to say that when the Board adopted the five-year transition period for the UR rate class and eight-year period for the R1, R2, and seasonal classes, it was based on an understanding of what the resulting change in the fixed charges would be? It was targeting this $4 net increase?

MR. LI: It was approved based on -- even back then when it was approved, there were, especially for R1, R2, the increases -- we knew that the increase would be over $4 already.

MR. ANDRE: And if I recollect, I believe that we had indicated that for the R2 class to get down to a $4 increase would have meant a 17 or 18-year transition period, if I recollect. So the Board felt that that was too long a period, so it was understood that the increases were going to be more than $4.

MR. SEGEL-BROWN: Okay.

MR. ANDRE: If I could also add, I mean, the $4 is referenced here. But I would just like to point out that when the Board issued its letters to distributors directing them to implement this move to all fix, and that was a letter issued July 6th, 2015, there's actually not a reference to the $4.

The reference is specifically to the need to keep bill impacts below 10 percent for customers at the lowest 10 percentile. That was the focus. I mean, the $4 is a criteria and it is mentioned, but the other criteria that's relevant is that 10 percent impact on the tenth percentile of customers. And with Hydro One's proposal, the tenth percentile of customers all are below the 10 percent bill impact.

MR. SEGEL-BROWN: Okay. I'm not sure if that was asked in an interrogatory.

So it's my understanding that currently, the different customer classes have very different willingnesses to pay for improvements in reliability and that a substantial portion of Hydro One's capital expenditures are dedicated to improving reliability.

In your view, how would we go about figuring out possible ways to incorporate reliability as a cost allocation factor between rate classes?

MR. ANDRE: Well, I haven't given that any thought, but something that jumps immediately to mind is that the cost allocation principles that all utilities in the province used are those sort of embedded and enshrined in the Board's cost allocation model, and so I think something like that, if there was a thought to incorporating some other factor into the allocation, it would be something that would have to be addressed, in my view, through an OEB working group that got the input from all of the utilities and got expert input as far as cost allocation and rate design, and -- yeah, I think that would be the process to go forward.

I think as an individual utility, I don't know -- as I say, I hadn't given any thought before you asked your question, and I really, off the top of my head, can't think of how to do it, but I would agree that it would have to be something that would have to apply universally to all of the distributors and would have to be built into the Board's cost allocation model that they issue every year.

MR. SEGEL-BROWN: Okay. I'm sure you intend to speak to this because it was asked by the Panel, but could you explain why the regulatory obligation which you believe requires you to charge fees for all of the services that you've identified in that annex?

MR. BOLDT: Sorry, could you just repeat your question, please?

MR. SEGEL-BROWN: So there's a variety of new charges which are being added, like the charges for disconnection. Could you explain the regulatory obligation which you believe requires you to introduce those charges?

MR. BOLDT: Certainly. First what I'd like to do is I'd direct you to the March 12th, 2015 decision, EB-2013-0416 and, in particular, page 51. In that decision, and I will quote:

"The Sustainable Infrastructure Alliance of Ontario, the SIA..."

MS. ANDERSON: Could you just wait a second until we see the exhibit.

MR. ANDRE: I think Mr. Boldt was prepared to read out the specific quote from that decision if we can't find it.

MR. BOLDT: Yeah, 51, page 51. Can you scroll down, please? Yes, right there.

Okay. So on this page, as you can see, it states that:

"SIA raised the concern that Hydro One's charges for miscellaneous service charges -- or services significantly under-recover the true cost of the services."

And also what it states is that:

"SIA suggested the charges should be updated to more closely reflect the actual cost, which would offset some revenue to be collected from the rates."

The OEB states a little bit farther down, it says:

"However, as Hydro One has unique service charges -- or characteristics, sorry, the OEB directs Hydro One to, as part of the next rates application, a study assessing whether its service charges reflect Hydro One's underlying costs and to propose the changes accordingly."

So when that direction was given, they've also stated that the OEB indicated that it will initiate a review of services charges in the distribution sector that initiate -- that it did initiate separately November 15th under EB-2015-0304.

When this was given in the decision, we were of the view that all the charges that were in Chapter 11 of the 2006 rate handbook -- if we could go there right now, please. And in particular I'll take you to page 112, please. 112, please. Oh, sorry, just scroll down, please. We're looking for Schedule 11-1, if you just scroll down a little bit. There we go, right there. Just back up.

So rate codes in Schedule 11-1, in particular rate codes 1 to 30, we were of the view that those were the codes that were mandatory to study. And at the same time, there were other miscellaneous service charges that we had proposed in the last rate filing that during the same time study we did propose to study those as well.

MR. SEGEL-BROWN: So if we could go back to the previous document, the wording that you believe makes the introduction of these charges mandatory is that -- is the wording "to propose charges accordingly". Is that right?

MR. BOLDT: Correct. Our understanding was that the OEB had directed us to perform the -- it says:

"However, Hydro One has unique service characteristics and the OEB directs Hydro One to, as part of the next rate application, a study assessing whether its service charges reflect Hydro One's underlying costs and to propose changes accordingly."

And that's what our time study has done.

MR. SEGEL-BROWN: Okay.

MS. ANDERSON: Okay, I'll follow up with my questions then, given this was my -- I think my question. But going back to the 2006 rate handbook, the schedule that you showed us, weren't those optional for utilities at the time?

MR. BOLDT: They are, yes, so if we can go back to -- if you just scroll up on that document, please? Keep going. You're going to see -- above 11.1, please? Keep going. So -- no, down, sorry. Keep going just down a wee bit. Right in there.

So it says that:

"The applicant may choose one of the following four approaches to define the level of charge to bill the customer."

Of course the first one is the standard amounts, which are in Schedule 11-1, using a standard formula as specified in Schedule 11-2, with adjustments. And it says:

> "If the applicant elects to adjust the level determined by the standard formula, it must provide additional evidence of cost justification for the adjustments."

And the third bullet is:

> "The level determined on a basis other than a standard formula."

And it goes on to say that, in the fourth bullet:

> "A distributor may specify in its conditions of service that the specific service charges being provided will be charged on an actual cost, time and materials basis, and a pass-through of third-party costs. On this basis, the approval of the Board is not required, but the applicant must maintain records that demonstrate that the actual cost was charged to the customer."

So in our exhibit there are some charges that we have determined or we've indicated that we would go to the fourth bullet and charge actual costs. Service upgrades for one, I believe, or temporary services. And what we -- what the direction was that we took in our time study was to take the standard formulas that we used and then basically identify the labour components to do that work. It was a bottom-up approach that we asked the individual workers to, not from a time-sheet perspective, but to track the amount of minutes in travel and in the duty for each task, and we compiled it in data, in a -- excuse me, in an Excel spreadsheet to compile the year-long data, to then determine what our average travel times were, average work times for each task, and from there what we did was we took the applicable year's labour components of the individuals doing the work.

One of the things I would add is that there are different individuals and different pay scales for those individuals, and what we elected to do was take, in most cases, the lowest qualified workers' pay scale to do that work, to try to keep the rates as low as possible, but still reflect what our actual costs were.

These rates in the handbook, as you know, are twelve years old as well. The majority of what our finding is that the labour component and the burdens that's increased -- I want to use the word "significantly" in the last twelve years.

The actual labourers in schedule 11-2, we used that same approach. We have made some modifications to our overtime rate, where it used to be -- in 2006, they used a multiplier of 2, and we adjusted it to 1.4, which is more reflective of the cost to the company on a double -- like overtime on a weekend or something, or in the evenings.

So we did applicable adjustments to come up with the rates that we have seen.

The other thing that I will point out, too, as well is that the -- in the study itself, and in the costs, there is some components that have significant increase. I've heard that being used this week, and I agree with that. But I also would point out that there's 20 other rates on the file as well that are actually decreasing in this time study.

And lastly, I think what I would say is that from Hydro One's point of view is that we are looking for some direction from the Board with respect to the significant increases. If you were to elect to, you know, smooth that rate in or bring it in gradually, we are looking for that direction as well.

But based on the time study and what I've just said, the actual cost in our exhibits were the under -- are the underlying costs of what it costs us to do these jobs today.

MR. ANDRE: Ms. Anderson, because you had specifically said point me to the handbook, so if we could just scroll down a little bit below the 11.1 heading --

MS. ANDERSON: Mr. Andre, just to be clear, I don't think I said point me to the handbook. I said point me to the reference, whatever it might be and the first step was the decision.

MR. ANDRE: Right, the reference. And within the handbook, there is, I think, a reference which you might find useful. So if you could scroll down to 11.1, right there.

So you can see right under the heading, the direction is "The Applicant must file a schedule 11-1," which is that list of services, "to provide a list of services within each of the identified charge codes."

So I think right from the beginning, utilities have been provided that list of services as required by the handbook.

MS. ANDERSON: Okay. I'm not sure where it would be in the handbook, but I had understood that not every utility had to choose every charge on the list. So you've chosen -- my understanding, is that correct -- is that you've chosen to include all that are on the list?

MR. BOLDT: So from -- like, when I read the time study, and from a regulatory point of view when we started looking at it, the questions we asked is because it talks about the handbook. And so what we did was we studied what was listed in the first 30, plus the other costs that we have that we're looking for approval to charge based on our own unique charges as opposed to charging actual cost, all right?

If you were to scroll up just before -- or it is in 11.0 of the introduction -- just down, please, it's the fifth paragraph -- yes, it says right there.

I think what you are referring to is it says:

> "A distributor may determine that a specific service charge is not necessary, as it considers the activities part of its standard level of service, and the costs are recovered in its regular distribution rates."

The study that I led, and that we presented as the time study and our rates, what we did was we took all the handbook charges and we studied it thoroughly to say what is the labour component to come up with a cost for each of them, and that's what's been presented to the Board here.

Now, I will point out, if you may go to the -- in our current rate order, if you go to the specific rate order -- if you can bring that up, please? And in particular, page 16 of '19. This was the current tariff of rates and charges. Okay, so just scroll down, please.

You will see that in our current tariff, all the miscellaneous costs that were studied are not what's in our current tariff today. So going back to that fifth paragraph, our company has decided that they're -- this has been rolled over since the last application, but the basically not all those rates that I'm identifying -- because in the time study, when they said here study your handbook rates, all your handbook costs, and even through the study that the Board's initiated from an industry perspective, we didn't think that we should just study particular costs because the direction was study all of the costs because are you doing -- everything that you're doing, can you study it.

And I'm not sure how far along you are in your own current study for the industry perspective, but I'm assume that if you -- is the Board -- I don't want to ask a question, but my assumption is that you will do something to look at every single one of those costs, and then maybe come back and say this is reflective to your day-to-day business, so we don't have that in a rate handbook anymore.

I don't know what the approach is going to be, but the approach that we took was to study each cost, bring that to you as directed, and in our tariff of rates, you know, it would be updated to reflect the cost.

MS. ANDERSON: Could you go to the very first paragraph of the 2006 rate handbook, page 1 or whichever page it is?

MR. BOLDT: Yes, sorry, you're going to 11.0, the introduction?

MS. ANDERSON: The very first page of the handbook. Do you have it there?

MR. BOLDT: I do have it, yes.

MR. QUESNELLE: No, the handbook itself, not section 11.

MR. BOLDT: I'm sorry, I don't have that. You would have to scroll up to the very first page.

MS. ANDERSON: And do you see the first paragraph?

MR. BOLDT: Yes, I do.

MS. ANDERSON: So it's your opinion that -- because this says it's for the purposes of setting 2006 rates.

MR. BOLDT: Correct.

MS. ANDERSON: So what you're saying is it's this decision, EB-2013, whichever one it was, that you say means that it is now applicable to you; is that your opinion?

I'm just trying to be clear why, if this was for setting 2016 rates, you are now saying it's applicable to you. And the reason for that is?

[Witness panel confers]

MR. BOLDT: Yes, so we're not aware of anywhere, other than in the decision that was given to us, that there was any other type of an update to the rate handbook.

In our approach -- like the last sentence says:

"The handbook is intended to provide applicants with a straightforward process by which to prepare their applications for 2006 electricity distribution rates."

We didn't go in to look at it and say let's take something completely different than what the Board has told us in 2006. What we took from the decision was to take what was available in the 2006 handbook and then update it. And in particular, it's 11-2 which there's tables that shows how you actually do the math to come up with the actual rates.

That is exactly how we did this but we used the time study minutes, the proper labour components, and the updated labour rates. Material and equipment have been updated as well. And we've applied the same formula as in 11-2, other than where I've mentioned about the times 2 versus times 1.4, and then the summation of that is what the rate would be at 2016 in the time study itself.

MS. ANDERSON: Thank you.

MR. QUESNELLE: Mr. Segel-Brown?

MR. SEGEL-BROWN: Just the last couple of questions.

MR. BOLDT: Okay.

MR. SEGEL-BROWN: So I gather from what you just said that the charges are implemented because the time study found that there was a cost. There was no other considerations involved; is that right?

MR. BOLDT: I think if -- sorry, just repeat your question again, please?

MR. SEGEL-BROWN: My understanding from what you just said is that the charges are proposed because the time study found that there was a cost and you believed that you were bound by this 2013 decision to propose a charge wherever you had a cost; is that correct?

MR. BOLDT: Yes, so the -- because, you know, there was the idea that we were significantly under-recovering, there were 30 charges that were already there that had their labour components which were calculated, and the idea was we'll take the first 30. We actually do a majority of these. Some of them we don't know. And the idea is to put the applicable labour rates to update the charge to reflect the true cost to do that work today.

MR. SEGEL-BROWN: So what I'm getting at is that there wasn't any consideration for customer expectations, whether customers expect a service to be included in their rates like the initial connection or disconnection. That did not factor into your analysis?

MR. BOLDT: Earlier this week I believe my colleague Imran Merali actually stated that in one of the transcripts. We can go and find that, but I'm pretty sure I remember hearing him say that he believes that some of the costs that are on the rate handbook maybe should be in the cost of service.

MR. SEGEL-BROWN: Yes. That's my recollection of what he said as well.

MR. BOLDT: Okay. The idea of the time study, based on the decision, was to take what was in front of us and to update those costs to today's -- through 2018 to 2022 labour components to make them current so that ideally there is no cross-subsidization, so if it's a fee that somebody's -- that we're incurring, they're charged that, so that you are not cross-subsidizing the other ratepayers -- or the -- sorry, the other ratepayers are not cross-subsidizing that rate or that cost.

MR. SEGEL-BROWN: So it's unclear from that whether or not Hydro One thinks that there should be charges for all of these services. As you mentioned, Imran said -- I believe he said earlier that he wasn't sure there should be charges for some of these, which customers kind of expect to be included in their rates.

I'm not clear what you just said there with regard to what Hydro One's position is on whether these charges should be implemented.

It may also be helpful to reference the paragraph that you brought up which says -- which provides the discretion that the utility may not implement a charge if it determines that it's part of the standard level of service and recovered in regular distribution rates, which was part of the electricity distribution handbook.

So it seems to me that you didn't do that analysis of whether the charges which are being imposed are something which customers expect to be included in the normal level of service and in normal distribution rates, which might be the case for reconnection and de-connection.

MR. BOLDT: Correct. And I -- you know, we didn't do that portion because the study was reflective of updating the 2006, and you'll see in our current tariffs that there wasn't -- not all those rates were in there, that, you know, there's been some that are not -- that were omitted, but at the same point, at the same time, without being -- or without the decision on EB-2015-0304, which is the industry look at the rate handbook, I'm not in the position certainly to be able to say here are six that should stay in and here are 14 that should go out, just as an example, and we did not look at it in that way, in the study -- or in the submission.

MR. SEGEL-BROWN: Okay, and the same question with regard to affordability. You give the same answer that because these charges are in the 2015 decision you implemented them without regard to whether or not the resulting charge would raise affordability concerns; is that right?

MR. BOLDT: We put them in based on the cost to do the work reflective of the labour component and the people doing the work, is what we submitted in the time study and was submitted in our application. And as I think was brought up yesterday, and Imran agreed to it and I do agree with it, that sometimes the affordability is -- it can have an impact, and -- but we are looking -- like I said earlier, we are looking for some Board direction on this where the rates are significant, but --

MR. SEGEL-BROWN: Thank you very much. Those are all my questions.

MR. QUESNELLE: Okay. Did you have anything else? I think Mr. Boldt wasn't quite finished answering --

MR. BOLDT: Yeah, I just wanted -- in finishing, I just wanted to say that the rates that were there and if the decision is to do something other than charge, but these are the rates that we've submitted, so that it's the fee to do the work, and if you elect to choose something different then that's okay too, but this will fully cover the cost to do that work.

MR. QUESNELLE: Thank you, Mr. Boldt. Mr. Yauch.

CROSS-EXAMINATION BY MR. YAUCH:

MR. YAUCH: Thank you, good afternoon, panel. Thank you, Mr. Shepherd, for letting me go ahead, because I couldn't make it on Thursday.

So I have a compendium, and I put a copy up there for the Panel.

MR. QUESNELLE: We'll have that marked.

MR. SIDLOFSKY: That will be Exhibit K10.6.

EXHIBIT NO. K10.6: ENERGY PROBE CROSS-EXAMINATION COMPENDIUM FOR HONI PANEL 7.

MR. YAUCH: And if we could turn to page 21 of the compendium it would be appreciated. So in this -- I know you were already asked about the distribution rate protection program, which is provincial policy that subsidized electricity rates for certain rate classes.

In your answer you provided the revenue collected, allocated cost compared to what you actually charge ratepayers. In the revenue cost to ratio that you calculate at the far right, C plus B over A, I interpret that to mean that R1, R2 customers pay 68 percent and 71 percent of the allocated cost respectively, correct?

MR. ANDRE: So we performed the calculation as requested, and what that would show, I mean, the R1 and R2 class, as a class, paid their full costs with the revenue-to-cost ratio as it comes out of the cost allocation model.

These lower -- these lower numbers that you see in this interrogatory response reflect the fact that some of the cost of serving the R1 and R2 classes are now being funded through government subsidies, so it depends on how you want to characterize those numbers. The class still pays revenue-to-cost ratios that are within the Board-approved range. If you take into account the subsidies that come from government then those are the numbers that are calculated there.

MR. YAUCH: And the subsidy flows to the customers, correct? So when they get their monthly bill, if they are an R1 customer it's lower than it would have been without the subsidy.

MR. ANDRE: The subsidy; that's correct.

MR. YAUCH: Okay, if you go to page 24 of our compendium, please. So here you gave a dollar figure. That's part B. And part C -- so I should say for R2 the revenue cost ratio for R2 customers is 95 percent, so they pay 71 percent of 95 percent, so it is actually even less. The subsidy they get is even more pronounced than what's shown in the distribution rate plan, correct?

MR. ANDRE: Yeah, the R2 customers get a subsidy from the triple RP fund, as well as from the distribution rate protection.

MR. YAUCH: As well, they don't pay one in the revenue cost ratio so they -- there's an internal subsidy between Hydro One customers between rate classes.

MR. ANDRE: Yes, the revenue-to-cost ratio that comes out of the cost allocation is 95 percent, around there.

MR. YAUCH: So part C you were asked if you moved the revenue cost ratio you currently use to 1, what would be funded through -- from taxpayers, and actually the amount goes up. So the way I interpreted that is that if Hydro One had no internal cross subsidiaries between rate classes, taxpayers would subsidize even more. So you rely on internal subsidiaries to essentially reduce the subsidiary from the government. I know that's a lot of subsidiaries on the table, but...

MR. ANDRE: And I don't know that I would characterize what you're characterizing as internal subsidiaries. That's not how I would characterize it.

The Board has a range of acceptable revenue to cost ratios, and I think the range of acceptable ratios recognizes the fact that cost allocation is not an exact science. We use a number of allocation factors, whether it's peak demands, number of customers, weighted number of bills, any number of factors.

But it's not perfect, so you can't perfectly say that this is how much you it costs you to serve a particular class. So that's why the Board has an acceptable range.

So I think that as long as it's within that acceptable range, I would say that the classes are being charged their cost to serve.

Now, mathematically, a revenue to cost ratio of 1 would be perfect, and anything other than that implies, as you're suggesting, internal subsidies. But I wouldn't characterize it as an internal subsidiary.

MR. YAUCH: In pure economic efficiency -- one is purely economic efficiency, right? Everyone is paying exactly what it costs to serve them?

MR. ANDRE: No, that's my point. The cost allocation not perfect. So even if you went to 1, you wouldn't necessarily be actually recovering what it cost to serve them.

You would be recovering what the cost allocation model says it costs to serve them, but I would disagree that that is a perfect assessment of what it costs to serve each rate class.

MR. YAUCH: So the cost allocation model doesn't actually allocate costs correctly; is that how I'm interpreting that?

MR. ANDRE: No, I disagree. It allocate costs using accepted principles for the best way and the most appropriate way to allocate costs, but it is not perfect.

MR. YAUCH: Okay. If we can go to page 7, please, of our compendium. If we scroll down to the table -- there we are.

So in 2017, you had your revenue-cost ratios and I'm going to focus only on residential customers. You are seasonal, but mainly you are an R1.

So in 2017, they're at 110 percent. And then in 2018, they go to 105 percent. Why does it go down, essentially? Like why did you choose it, or why does it go down 5 percent for that year?

[Witness panel confers]

MR. ANDRE: So again, the 5 percent isn't a choice. It is the outcome of applying the Board's methodology that says, okay, how much is the increase in rates required to deal with the revenue deficiency at the first level. So that determines the revenue that you are going to collect from each class. And then you go through the Board's cost allocation model to determine what is the cost to serve based on the accepted principles for allocating costs across the different USFAs and allocating that across the classes, and that derives a cost to serve.

And then what you see there, the 1.05, is the outcome of the revenue that you're collecting from the class and the cost to serve that class.

So went don't set the 1.05; it's an output from the model.

MR. YAUCH: Can you work backwards? Can you work to keep -- the Board sometimes will direct you a range, as you say, and the Board can narrow the range, in which case you'd have to work backwards, correct?

MR. ANDRE: Yes, at the rate design -- so these are what comes out of the model. At the rate design stage, you have the ability to adjust those revenue to cost ratios to whatever -- you know, if there's something more appropriate, like there's previous Board direction to make a move, or one of the revenue-to-cost ratios like in this table, the DGen class where it's outside the range, then that is a conscious choice to move it to -- you can see the column under 2018, the revenue to cost is the after rate design.

So the move from .57 to 6.3 for the DGen class is a conscious decision to adjust the revenue-to-cost ratios.

So yes, it can be done. What you are suggesting can be done at the rate design stage.

MR. YAUCH: If you go to page 12, please, this is essentially what it moves to by 2022, and you can see for UR and R1, you are back to 110 percent.

In fact, for UR, before you do a rate science at 111 percent, I'm assuming from what you just said you essentially adjust it, so it comes back down within the Board range. So it was outside of this, but then you made adjustments internally to bring it back within the range for the UR class?

[Witness panel confers]

MR. ANDRE: Do you mean, because UR is both -- you mean the seasonal?

MR. YAUCH: The UR before rate design is 111, 111 percent and then after rate design, it goes back to 110 percent to bring it back within the range.

MR. ANDRE: Sorry, you're at 22. I apologize. I was looking at the 21 column.

So that would be an outcome -- you see that in '22, you see some of the classes down below like the acquired urban class for -- acquired urban general service energy, urban service demand, you see some of those revenue to cost ratios were below the Board range of 0.8. So you can see that after rate design, they're moved to 0.8

So what we do when there is additional revenue that is being generated from those classes where you are moving the revenue-to-cost ratios up to within the range, you take that additional revenue and apply it to the classes that were farthest from the range on the other end.

So in this case, the UR class was far from the range, so we adjusted that one down. And the R1 came down a little bit as well. Although you don't see it on the range, you do see it in the -- you do see it in the revenue column. You can see it went down from 370.8 to 369.6.

So that's the outcome of raising the revenue-to-cost ratios for some classes and then using that revenue to lower the revenue-to-cost ratios for those classes that have the highest values.

MR. YAUCH: All right. I was going to ask this later, but you brought it up so I'll raise it now.

So for the acquired utilities in '21, 22, one of our supporters looked at these numbers and said why is that not a case of current Hydro One customers subsidizing new customers that you've acquired. Because their revenue-to-cost ratios is so far away from one that it appears that you are not actually charging them what it cost to serve them. So that difference is made up by current Hydro One customers that aren't part of the acquired utilities.

MR. ANDRE: All right, if you just give me a second, I just want to make sure I point you to the appropriate reference, because what you're looking at there is the blue -- the prefiled evidence.

MR. YAUCH: Yes.

MR. ANDRE: And so we filed an update in Q1.1 that made a change to the allocation of cost to the acquired classes. So I just want to --

MR. YAUCH: One of the updates to the updates?

MR. ANDRE: Yes. So if we go to Exhibit Q1-1, attachment 4 -- and right there is fine.

So you can see the column that's revenue-to-cost ratios from the cost allocation model. It is fourth from the right-hand side.

MR. YAUCH: Right.

MR. ANDRE: So you can see that some of the acquired classes had revenue-to-cost ratios. For example, the acquired general service demand was at .63. The acquired general service energy was -- urban was at 0.73. And what you can see in the next column to the right is that we move those revenue-to-cost ratios to 0.8.

So right in 2021, all of the acquired classes are within the Board-approved range. And so, as per my earlier statement, once we get them to be within the Board-approved range, I don't consider that to be internal cross subsidization.

MR. YAUCH: Acceptable cross-subsidy.

MR. ANDRE: Yes, it is an acceptable range of revenue-to-cost ratios that the Board considers an acceptable...

MR. YAUCH: So when we talk about the cost allocation model, sometimes it seems as if we entered it in -- I've played with it, too. It's a giant spreadsheet and the costs -- it gets spit out of the magical black box. But in fact, it's not.

So if it's not appropriate, you change it. So you do have the ability to say, well, no, the range that the Board gave us, because there's outside cross-subsidiaries from the province or something, we can change it after the fact. It's not -- it's not a black box. We can go in there and change it?

MR. ANDRE: Again as I said, it wouldn't happen at the cost allocation stage. It would happen at the rate design stage.

So the cost allocation would tell you what the revenue-to-cost ratios are, and then at the rate design stage you would have the opportunity to revise those ratios, as we did in the example that we're looking at on the screen there.

MR. YAUCH: So if we go to page 25 of our compendium, this is related to the follow-up on your point.

We asked you to move it to 100 percent if that was possible, and you did. And over the first three years, following pages 26, 27, 28 -- we don't have to go through them so much, but because there's no acquired utilities, it wasn't that difficult; it's not that difficult to move them all to a smaller 100 percent if you wanted to you, but a smaller range than what we have now, right? The acquired utilities sort of make it a bit messier, correct?

MR. ANDRE: I mean, once you're in 2021 the six -- the new six acquired utility rate classes simply become six more rate classes which have their own revenue-to-cost ratios, their own allocated costs, and I wouldn't think it would be any more difficult. Like, the principle that you are talking about about the ability to change revenue-to-cost ratios would exist at any point in time.

MR. YAUCH: So if we can go to page 30, please. This is Energy Probe 68. And in there we ask for a smaller range, and you provided it, and then if you go to the following page, page 31 -- I am not expecting anyone to read this -- you can take it subject to check, though, that the total bill impact for anyone, for any rate class moving to a smaller range of 95 percent to 105 percent, the total bill impact was never more than 10 percent except for the DGen class, which it was over 10 percent.

[Witness panel confers]

MR. ANDRE: Yes, that's correct, you know, making this arbitrary choice to tighten the revenue-to-cost ratio range doesn't result in impacts more than 10 percent, no.

MR. YAUCH: Okay, my last question is page 35. This is about your load forecasting model. One of the variables you use is the relative price of energy, which in Ontario would be natural gas, and so when you did your load forecast I'm assuming you took into consideration the cap-and-trade regime, which was going to raise natural gas prices; correct?

MR. ALAGHEBAND: Yes.

MR. YOUNG: And so now that it's been announced that it will be revoked -- I don't know if it will, but if it does get revoked, natural gas becomes more attractive compared to electricity and it would change the load forecast in some way.

MR. ALAGHEBAND: That is correct if it happens, but we don't know. There are regulations, so suppose Ontario may become subject to carbon tax by federal government. The Conservative elected government, I understand they are going to fight that, but it is not written in stone.

At this stage it stays as a risk, actually, to Hydro One, not to customers, because if it happens natural gas becomes more available -- I mean, more cheaper. People may switch to that one, and we lose customers, which means our load goes down, so we cover -- we don't recover as much revenue that -- as forecasted.

MR. YAUCH: Okay. So that was the second part of my question. Because you are in a revenue cap you are not actually affected by declining load, right? I mean, if you were on a price cap you would say, yes, you are, but one only one of your rate classes is on a fixed charge, and it will be by the end, but you are largely protected from that risk, correct?

MR. ANDRE: No, no, that's not correct. As I mentioned in my opening statement and discussed at length during panel 1, our proposal -- our custom IR proposal has an index that applies to the revenue portion of what we're requesting, but we are also forecasting the load for each of the five years, and we are setting the rates, so once the index sets the revenue requirement to be collected in any given year, we divide that by the forecast load as we are currently forecasting right now, and set rates on that basis.

We don't have the flexibility to, you know, if we saw that our load was dropping, that we could raise rates in order to meet our revenue cap. That's -- I guess some may look at that as a pure revenue cap, where the utility would have complete flexibility to adjust its rates so that it always collects its revenue cap, but that's not what Hydro One is proposing.

We're proposing an index on the revenue, and then we are proposing a load forecast that will be applied to calculate the rates for that year.

So as Mr. Alagheband has said, to the extent that the load doesn't materialize as forecast, if it drops, then it's a risk to Hydro One in terms of the revenue that it will collect.

MR. YAUCH: Okay, actually, one last question, if that's okay.

If you go to page 3, please. This is sort of a high-level look at this. So if you scroll down, you have your 2018 revenue requirement, which is 1.49 billion, and then you have the 2019 revenue requirement of 1.5 billion.

Column 2 is 1.498, so that's what you would collect charging 2018 rates, correct? It goes down because load is declining.

MR. ANDRE: Correct.

MR. YAUCH: So if you were on a price cap, a pure price cap, you would raise -- you would start from 1.498 and you would go from there, right, because you would bear the complete risk of load reduction, but on a revenue cap as you propose it -- so you come up with a multiplier, but the multiplier is really just to make sure you collect the revenue from your forecasted revenue requirement.

MR. ANDRE: If you are under a price cap per the Board's methodology that has a price cap IRM methodology, but if you are under a price cap approach like, for example, Toronto Hydro has in its custom IR, it also adjusts the price for the impact of forecast load, so, no, under a custom IR, whether you use a revenue cap or price-cap approach, at least the examples that have been, you know, that have been put before the Board to date do make an adjustment for load in the subsequent years.

MR. YAUCH: The way we practice price cap in Ontario is actually not in its purest form. Its purest form was the utility or whatever you were selling, whether it's apples or whatever, you would bear the risk that demand wasn't there. That's what a pure price cap -- consumers pay a certain rate that goes up by, let's say 1 percent a year, and that's it. Whether you sell less units, that's your risk, not their risk, but the way we practice here, we sort of adjust it to where rates go up faster than 1 percent, 3.5 percent in this case.

MR. ANDRE: No, the price cap IRM -- so the Board has three methodologies available to utilities, so the, what they call the price cap index approach essentially does what you're suggesting. It would just adjust the rates and, you know, the utility is at risk for changes in load. That's that one option.

The third option, the custom IR that Hydro One has elected and other utilities have elected, under that option, yes, we are forecasting load as the methodology for custom IR requires, we're forecasting load for the five years, and we're using that forecast of load to establish the rates for each of those five years.

MR. YAUCH: Those are my questions. Thank you.

MR. QUESNELLE: Thank you, Mr. Yauch. Mr. Shepherd.

CROSS-EXAMINATION BY MR. SHEPHERD:

MR. SHEPHERD: Thank you, Mr. Chair. My name is Jay Shepherd. I don't think I know all of you. I know some of you, but my questions are probably for Mr. Andre anyway, so -- and him I do know.

And Mr. Chairman, you want to take a break when you get notice that things are happening across the hall?

MR. QUESNELLE: No, I'm going to judge it. They will probably happen around a quarter to 4:00.

MR. SHEPHERD: Okay. So will you let me know when you want me to stop and I will do so.

MR. QUESNELLE: Yup. I don't think we need to be exact about it, but, yeah.

MR. SHEPHERD: I want to go too. And I have two documents. One is a compendium which has been circulated, and I think everybody has copies. There are more here if you want.

MR. SIDLOFSKY: And that will be Exhibit K10.7.

EXHIBIT NO. K10.7: SEC CROSS-EXAMINATION COMPENDIUM FOR HONI PANEL 7.

MR. SHEPHERD: And I have another document which is a compendium from EB-2017-0320, which will refer to just for a couple of things, and I'm -- I haven't yet distributed it because I was anticipating that there would be an objection to me using it, so if there isn't, that's great, then I'll distribute it.

MR. VEGH: Thank you for anticipating that, Mr. Shepherd.

Well, we do have a concern, of course, Panel. The expectation is that parties will ask questions on materials that are relevant to the application. Not all of those materials have to be, of course, you know, within the application, but you would think that they have to be with respect to the relief requested in the application.

The materials provided in this collection relate to a different application, and in fact, it starts with 17 pages of correspondence between the OEB and Orillia Hydro, and so I don't see any relevance to what's in these materials to the application before the Board, and if Mr. Shepherd can demonstrate that -- can argue for the relevance of these materials I'd like to hear that and be able to respond to that. But there's nothing in the face of these documents that appears to be relevant to the relief requested in this application.

MR. QUESNELLE: Okay, Mr. Shepherd.

MR. SHEPHERD: Mr. Chairman, I do not intend to refer to any of the correspondence between Orillia and the Board or Hydro One and the Board. I only put this in as a convenient way of getting in two things: One is the original estimates of savings that Hydro One gave in their original applications for the three acquired utilities, which are pages -- I'll find it. Just a second -- pages 18, 19 and 20.

MR. QUESNELLE: When you say convenient, Mr. Shepherd, the original source documents were those applications for the --

MR. SHEPHERD: Yes. So this just happened to have all the stuff I needed in one place.

And then the other thing that I wanted to refer to -- there's a bunch of stuff from this application, which obviously we didn't need. But also starting on page 28 is a report from Niagara-on-the-Lake Hydro, which I'm sure everybody has read and digested thoroughly, and I want to refer to a couple of the statements in that.

I don't intend to use it extensively, but I think everything that I'm proposing to use it for is relevant to this proceedings. Obviously, if I ask a question and refer to it and it's not relevant, my friend can stop me.

MR. QUESNELLE: Mr. Vegh?

MR. VEGH: Thank you. So the materials at pages 18, 19 and 20 are arguably relevant, and I understand that's usually the standard that the Board applies, particularly when they're looking at materials and not specific questions yet.

Obviously any materials filed in this application are relevant.

I do have concerns about the document entitled Niagara-on-the-Lake Hydro. There is an analysis here. The author of the analysis isn't here for cross-examination, so I don't think we can accept this document as truth of its contents and frankly, an analysis by Niagara-on-the-Lake Hydro about an acquisition that again is not being addressed in this application, I don't think has any relevance to this application.

So I don't know how convenient it is to put together some pieces of potentially relevant information with other pieces that are clearly irrelevant.

But as I've said, anything filed in this application is of course open game and I can see the arguable relevance at least of pages 18 to 20 of this document. I see no relevance of Niagara-on-the-Lake Hydro and no offer of why that would be relevant. And, of course, the materials marked Orillia are not relevant either.

MR. QUESNELLE: On their face in your analysis, Mr. Vegh, is exactly that, on its face. So why don't we wait and hear the questions and then we'll take it from there.

MR. SHEPHERD: I will tread carefully, Mr. Chairman. Can I have an exhibit number for that document?

MR. QUESNELLE: Do we have the documents, by the way?

MR. SHEPHERD: No, I guess I should give them to you, too.

MR. SIDLOFSKY: While that's going up to the panel, that will be Exhibit K 10.8.

EXHIBIT NO. K10.8: REPORT FROM NIAGARA-ON-THE-LAKE HYDRO

MR. VEGH: Just to be clear, sir, from the submissions and from the guidance that you provided, the pages that Mr. Shepherd referred to, that is 18, 20 and then we'll deal with the Niagara-on-the-Lake documentation. So while the full document is being identified as an exhibit, the pages that Mr. Shepherd conceded are not at all relevant, these first pages on the Orillia application, even though they are marked within a book that -- materials that we're calling an exhibit, I take it that those are not part of the materials, they are not part of the record of this application?

MR. QUESNELLE: Do you plan on relying on any of the correspondence, Mr. Shepherd?

MR. SHEPHERD: I'm not planning on relying on any of the correspondence. I think the pages 2 and 3, which is a distribution cost comparison -- I wasn't planning to refer to it, although I left it in because it might come up.

But pages 4 through 17, I have no interest in whatsoever.

If you want to take them out, that's fine. But frankly, they're on the record in another proceeding so it's not like they're secret.

MR. QUESNELLE: It is not as though they're secret. But I think Mr. Vegh's point is there is a -- we don't, without some significance, bring things on to the record if there's no bearing in another proceeding, would we?

MR. SHEPHERD: Fair enough, Mr. Chairman, except that it is common for a compendium to have documents that you don't end up referring to, and sometimes they're documents from other places.

Just because you don't refer to it, doesn't mean you have to go and rip it out. It just hasn't been referred to, so it has no basis for the Board to rely on.

MR. QUESNELLE: Well, I don't know that -- typically, arguments are made as to the relevance of the whole documents, and you anticipated question of the relevance of this. So now that we're looking at it, I think that the question has been raised, the concern has been raised, and I think that importing things that are of no relevance consciously, I think goes beyond what we typically would do.

So let's remove those and have 10.8 be the document that includes pages 1 through 3, and then starting again at page 18.

MR. SHEPHERD: That's fine, Mr. Chairman.

MR. QUESNELLE: Thank you.

MR. SHEPHERD: Now, I just have a couple of follow-up questions from previous discussions. I wasn't here during your direct, Mr. Andre, but I did listen -- the internet is a wonderful thing -- and I just want to make sure I understand a couple of things.

The load forecast in this application is not the original filing. The one we should look at is in 46 Staff 219.

MR. ANDRE: Yes, that's correct.

MR. SHEPHERD: Just ignore the previous one all together.

MR. ANDRE: The previous one has been updated, yes.

MR. SHEPHERD: And the 46 Staff 219 that we looked at, you've actually updated because a couple of the tables had things that were incorrect, and so we have to look at the updated, right?

MR. ANDRE: The forecast itself has not changed. But because we expected this interrogatory to be referred to and didn't want people to get tripped up by the fact that the math in a couple of cases wasn't adding up, yes, we did provide an update.

MR. SHEPHERD: Okay. And then the bill impacts in

Exhibit Q are a little bit wrong, and so we should use 56 Staff 264 instead, tables 12 and 13?

MR. ANDRE: Yes.

MR. SHEPHERD: Of Exhibit Q.

MR. ANDRE: Yes, that's correct.

MR. SHEPHERD: We should use Staff 264 instead?

MR. ANDRE: Correct.

MR. SHEPHERD: And finally, you answered a question from the second day relating to what to do about foregone revenue. And as I understand what you said, you said you need to wait for the Board decision to see how big the foregone revenue is, and you will -- you'll start from the premise that you are going to have a one year collection period for it, unless that would cause rate impacts to exceed the Board's limits, which is 10 percent of total bill. Am I right?

MR. ANDRE: Yes, my statement was we would look at the impacts that come out of that, and we would follow the Board's filing requirements. And you're right, the filing requirements refer to 10 percent. But I think we'd look at those bill impacts and make a decision as to whether some mitigation is required.

MR. SHEPHERD: Okay. So I want to be clear. Are you saying a one-year collection period, unless it's over 10 percent? Or are you saying we'll take a look and see how big it is?

MR. ANDRE: We will take a look and see how big it is and, you know, be cognizant of the fact that the Board does have a filing requirement that says as long as impacts are below 10 percent, they're considered acceptable. But we would factor that into our decision with respect to the disposition period and/or other mitigation means.

MR. SHEPHERD: Your presumption is that this will all happen in the draft rate order process?

MR. ANDRE: Yes, that was my assumption. We wouldn't have information on, you know, what the Board's decision is until the Board makes its decision.

Therefore, that would be the first available opportunity.

MR. SHEPHERD: Of course. All right. So I just wanted to clean those things up, but I really have only questions about the acquired utilities and the customers of those utilities.

And I want to start -- there is a lot of detail in Here, but I want to start like very high-level and then dive down until we dive down until we are completely submerged.

So at the highest possible level, and I'm looking at this from the perspective of the customers of those acquired utilities, is it reasonable for them to assume that the cost for which they're responsible as Hydro One customers should not exceed the costs that they would have been responsible for if they had not been acquired?

Is that a fair assumption for them to make when they were being acquired?

MR. ANDRE: When they were being acquired.

MR. SHEPHERD: Yes.

MR. ANDRE: I can't really speak to what the customers would or would not be thinking. I can speak to the fact that the Board's direction was to -- at the time of integration rate harmonization to ensure that we charged them the cost to serve, and so the cost allocation that we've proposed uses the Board's cost allocation model, includes some adjustment factors to ensure that we're meeting the Board's direction, and those are the rates that come out of it.

I can't speak to what the customers would or would not have thought.

MR. SHEPHERD: I'm not asking you what they would have thought. I'm asking you what is reasonable for them to assume. You've set your approach to the new acquireds, and we are going to get the old acquireds in a second, but for the new acquireds you've set your approach on the basis that the Board gave you guidance, right? And you are trying to follow their guidance, and that guidance is driven by fairness to the acquired customers; right?

MR. ANDRE: The guidance -- there is a lot that went into the MAAD decision. You know, the no-harm concept, the fact that what is very clear is that the cost that Hydro One adds to its revenue requirement in 2021, so the OM&A cost and the cost associated with the assets that are being integrated is less than what it would have cost the acquired utilities to serve those customers on.

So the total costs clearly are -- the total cost of

Hydro One, of serving Hydro One plus the acquired utilities is less than the two separate entities.

And then with respect to how much of those total costs flow to the acquired customers, we're following the Board's -- you know, we're following -- we're using the Board's cost allocation methodology and adopting some principles that we believe ensures that the costs allocated to them fairly reflect what -- reflects what it costs to serve them.

MR. SHEPHERD: You had a discussion earlier with Mr. Segel-Brown in which you agreed, I think -- and this actually comes from Q1.1, attachment 4, if I'm correct -- that the costs allocated to the acquired are 41.2 million, but you are actually proposing to only collect 34.9 million from them, right?

MR. ANDRE: Yes, I believe that's in an interrogatory response, yes.

MR. SHEPHERD: Well, but it's also in that table you showed a few minutes ago. Q1-1, attachment 4 has exactly those numbers, right?

MR. ANDRE: Yes, yeah, you're right.

MR. SHEPHERD: And so as long as what -- your approach is, as long as what you're collecting from those customers is less than what they would be paying if they hadn't been acquired -- this is a rates concept now -- as long as they're paying less or the same, I suppose, but less, then you've met the no-harm test, you've done right by those customers; is that fair?

MR. VEGH: Sorry, we're not relitigating the MAADs application here to determine whether or not the no-harm test has been met. That issue has been decided.

What Mr. Andre is giving evidence on is the Board's direction in those decisions with respect to cost allocation and the cost to those customers and that those customers pay the costs that is required to serve them.

Mr. Andre is providing information about how to understand those costs, but it's not a matter of relitigating or determining the test in a MAADs application. This is not a MAADs application.

MR. SHEPHERD: I didn't raise the no-harm test. Mr. Andre did. I'm not relitigating it. We are relitigating it, really, as it turns out, but I'm trying to get a sense of the approach that Hydro One is taking to acquired customers and make distinctions between the approach they're taking and potentially what the Board proposed -- what the Board's direction was in their decisions.

MR. ANDRE: So the approach we're taking is that, given the outcome of the cost allocation -- the output of what that model says and the resulting revenue-to-cost ratios, we are then proposing to move those revenue-to-cost ratios to within the Board-approved range, and doing so results in the collection of the 34.9 or whatever the exact number was that we collect from the acquired utility.

So that is an outcome following the Board's principles with respect to ensuring that all rate classes are moved to within their approved revenue-to-cost ratio range.

MR. SHEPHERD: Well, and, in fact, what happened was that you -- the total that you are charging to those acquired customers is less than what you say the escalated cost would be, which I'm not going to argue about with you, but some of the classes -- some of the acquired classes are actually paying more than what their cost would be, right? Than what their rates would be, right?

MR. ANDRE: So what do you mean, that some of the classes were paying more than...

MR. SHEPHERD: Well, so you said, well, 34.9 is less than the 36.3 or whatever it is that they would have been charged, which is fine on a total basis, but if you look at it class by class, isn't it true that the GS over 50 classes do, in fact, pay more than they would have paid under their old rate structure, right?

MR. ANDRE: They pay more for the distribution rate component. They would pay less on a total bill component because of the reductions that Hydro One has made to the RTSR rates that the general service demand classes --

MR. SHEPHERD: Okay. Well, let's talk about the RTSR -- I wasn't going to get to that yet. I was still going to do some theory, but since you want to talk about RTSR, go to page 60 of our materials. That's K10.7.

And we had a discussion about this in the technical conference. This is the March 5th, I think --

MR. ANDRE: What's the reference that is on that page of your compendium?

MR. SHEPHERD: Page 184 of the -- I think it's March

5th. It's the last day of the --
     MR. ANDRE: Oh, the transcript. Okay.
     MR. SHEPHERD: -- of the technical conference.
     And we had a discussion about that, and basically --
     MR. VEGH: Sorry, Mr. Shepherd. I am trying to look at -- I have a hard copy of the compendium. Did you provide an electronic copy of the compendium?
     MR. SHEPHERD: Yes.
     MR. VEGH: We are just trying to locate it. If you would bear with us for a moment.
     MR. QUESNELLE: Sorry, Mr. Shepherd, what page in your compendium?
     MR. SHEPHERD: Sixty, 60, six-zero. I was going to get to this much later, but since it's been brought up -- I sent in at... I'm looking for it.
     MR. VEGH: Yeah, I just asked Mr. Shepherd to resend this so that we can follow this electronically. We haven't received a full copy -- we haven't received a copy of the compendium.
     MR. SHEPHERD: Okay. I'm sorry.
     MR. VEGH: Of K10.7.
     MR. SHEPHERD: I'll do it right now.
     Sorry, Mr. Chairman, I can't find the -- the last -- my last e-mail from Mr. Davies. Ah, here we go. Here's one from Hydro One. Can we work from the hard copy in the meantime?
     MR. ANDRE: I do have the hard copy in front of me, yes.

MR. VEGH: Which page of the hard copy did you say?
MR. SHEPHERD: Six-zero. So if I understand correctly -- and tell me whether this is right -- for the GS over 50 classes -- and this is not true of the other class, right? The RTSR change doesn't have the same impact in the RSTR as other classes?
MR. ANDRE: It does have an impact, but not as big of an impact as on the GS classes. But there is an impact on all the classes.
MR. SHEPHERD: And the reason there is a big reduction of like $300 a month on the GS over 50 classes is because the acquired utilities were using very old load shapes to calculate the RSTRs for that class, right? Or for all classes, really. That's right?
MR. LI: That's one of the reasons, yes.
MR. SHEPHERD: That's the big reason, right, that's main reason.
MR. LI: No, I believe Mr. Andre talked about a couple of things. One is the methodology that we use and the other one is the fact that the load shape is, yes, old. It's about over ten years old.
MR. SHEPHERD: And one of the things that's happened is that those classes have shown flattening load shapes over the years, and that tends to reduce their RSTRs.
MR. LI: I'm not sure about the flattening part, but the contribution has changed so it's different, yes.
MR. SHEPHERD: So what you did is you did a correction to basically old information that the acquired utilities

had, right?

MR. LI: Well, we used the latest available information to do the forecast, yes.

MR. SHEPHERD: So there's no reason to think that they wouldn't have done the same thing, right?

MR. LI: Well, they haven't done it for ten years.

MR. SHEPHERD: Well, you've owned them for six years. So no, the last six years certainly isn't their fault.

MR. LI: Well ...

MR. ANDRE: Sorry, we've owned them -- you mean by the time we integrate them, we will have owned them for six years. And I would point -- I mean, to the extent that the acquired had made some adjustment to the RSTR rates that they charge their GST class, if they lowered those rates, then presumably the rates for the other classes would have to be adjusted to ensure that they still collect all of the transmission charges.

So an adjustment for updated load shapes would presumably just shift the amount of transmission charges collected from their classes.

MR. SHEPHERD: So all of your -- all of your bill impacts for the acquireds all assume that the change in the RSTR is something you did. That's a benefit you give them because you own them, right?

MR. LI: I don't think we say that is a benefit, but it is a change because we did the allocation when it comes to RTSR or transmission charges, and that's the result, so...

MR. SHEPHERD: What I'm trying to distinguish between is they could have this big drop in their transmission costs because Hydro One's transmission costs are simply lower than everybody else's. Or they could have it because you caught something that their previous owners didn't catch. Which is it?

MR. LI: Maybe I should go back a little bit. I think that in the technical conference, Mr. Andre mentioned two reasons, two contributing factors.

One is we use a different methodology that follows the Board's guideline when it comes to set RTSR, which is consistent -- I shouldn't say consistent, which is exactly the same as was stated in the electricity distribution rate handbook. So that's a methodology change.

And the other one is the fact that the load shapes that were used to set the acquireds' RTSR current rate, they are over 10 years old. So we basically used more actual -- well, I shouldn't say more actual -- actual latest interval meter and smart meter data to forecast the load shapes.

But there is actually another point that I would like to point out. It's that if you look at the allocation in general, cost allocation, it's really about how this rate class and compared to other rate classes. It's the basis of cost allocation, right?

So when it comes to the current rate of the acquired utilities, let's pick ...

MR. SHEPHERD: Can I just stop you. Are you still talking about the RTSRs?

MR. LI: Yes, yes, I'm sorry, cost allocation of RTSR.

MR. SHEPHERD: Go ahead.

MR. LI: So if you would just pick the one that we are talking about, I think Woodstock GS over 50, right.

MR. SHEPHERD: Okay.

MR. LI: So before integration, the peer group is really Woodstock residential, Woodstock GS less than 50, streetlight and USL, et cetera, right, within Woodstock, but then when they come to Hydro One, the peers have changed now because now Woodstock GS over 50 is comparing -- this class is being compared with all the Hydro One legacy classes now, R1, R2, whatever.

And also on top of that, it's also being compared with Norfolk and Haldimand customer classes. So the peer -- the peer group has changed now.

So I cannot tell you why they're different, but the result because of this, the contribution has changed. So without the transaction, it never would have happened because they would always be compared with Woodstock itself.

But now that it's come to Hydro One, it is different now. So something has changed, that's what I am saying.

So there are really three factors, if you look at it. There's the methodology change, the load shape update, and then the peer group.

MR. SHEPHERD: So you're saying that for GS over 50, these particular customers, these acquired GS over 50 customers of the two respective classes, are paying less and your legacy customers are paying more for the RTSRs, is that right? It's a shift between them.

[Witness panel confers]

MR. LI: I think there are too many changing factors here, so I'm not sure if I can be sure about that.

MR. SHEPHERD: So back to the question I was trying to ask. Are they paying less, these particular customers? Are they paying less because you simply charge your customers less for transmission? Or are they paying less because you fixed a cost allocation problem that pre-existed your acquisition?

MR. LI: I don't think I did that comparison, no. So I -- I mean what I can tell you is we implemented three different changes here, and what we see is a result of all these changes. I'm not sure if I can just say which is which in this case.

MR. ANDRE: And I don't know that I would characterize it as fixing their methodology. We have a different methodology that uses the most current available meter data, and those three factors that Mr. Li has been speaking about and use of that -- you know, taking into account those three changes results in the lower RTSR charges for the GSD classes that you see.

MR. SHEPHERD: Here's what I'm trying to nail down, Mr. Andre and Mr. Li. On the distribution charges, your costs being allocated to these customers are significantly higher than they would otherwise have; even though you are not charging them, the costs are there. And that's because Hydro One has higher costs for at least some things.

In the case of transmission, if you are saying, well, yeah, but we're assigning some lower costs to them for transmission because we have lower costs, that would be great, then it's fair, you get the blame for one and the credit for the other, but if the first is because you have higher cost distribution and the second is because you fixed a problem, then they don't -- they are not really apples to apples. Do you understand what I'm saying?

MR. ANDRE: I do, but I think as a customer of this utility my interest would be foremost in what does that do to my bill? Am I going to see a higher bill or a lower bill once this integration in rate harmonization happens, and I think what we are demonstrating is that they would see a lower bill.

MR. SHEPHERD: Mr. Chairman, I am going to move to another area.

MR. QUESNELLE: Break? I would estimate that we are probably going to be 4:15 or so. So let's plan on that, but it may vary. Thank you.

--- Recess taken at 3:47 p.m.

--- On resuming at 4:22 p.m.

MR. QUESNELLE: Okay, thank you very much. Mr. Shepherd, why don't we target, because you've got -- you will be back tomorrow morning, I take it, as far as your cross?

MR. SHEPHERD: Hopefully, it's Thursday morning.

MS. LONG: Thursday, rather. Sorry. I'll see you tomorrow. I am just looking for what a natural break is for you close to 5:00.

MR. SHEPHERD: We should do that every day, by the way.

MR. QUESNELLE: Yes.

MR. SHEPHERD: So I want to come back to the first questions I was asking, because what I'm trying to understand, Mr. Andre, is you've got a situation where the costs you've allocated to the acquired customers are certainly more than the costs that they would have been paying for had they not been acquired, fair?

They're not paying for all those costs, but the costs allocated to them are more than the costs they would be responsible for had they not been acquired, right?

MR. ANDRE: Yes, I think -- I think the best interrogatory is the one that VECC took us to this morning -- not interrogatory, technical conference undertaking JT3.18-19 which showed that the status quo costs would be 39 million and that compares to the 41.3 million that is being allocated to those classes, yes.

MR. SHEPHERD: Sorry, which ones did you say, 18, 19?

MR. ANDRE: So JT3.18-19.

MR. SHEPHERD: So I have that in my materials.

MR. ANDRE: So --

MR. SHEPHERD: On page 36 and 37.

MR. ANDRE: Right. So the total for status quo there shows 36.9, but this -- do you have that?

MR. SHEPHERD: Yes.

MR. ANDRE: But this morning we talked about how, or I talked about the depreciation there is the depreciation on the rebased gross book value at the time that they are integrated within Hydro One. So it doesn't really reflect their gross book value. Like when they were integrated into Hydro One, their net book value became the effective gross book value at the time of integration.

So the depreciation -- you know, for an apples-to-apples comparison, if they had stayed on their own their depreciation cost would be tied to their gross book value, and so I estimate that the depreciation would cost would actually add 2.1 to that 36.9 figure, for a total of 39.0.

But if you are going to compare that 39.0 to the 41.3, Mr. Shepherd, you also have to take into account that the 41.3 would include all of the upstream transmission costs, so costs that when they were separate utilities would have been LV costs, if you will, like the cost that they would have paid as an embedded distributor. So that's actually an additional .9 million.

So when they're on their own, they were paying those upstream Hydro One costs to them to gets the power from the transmission system to these embedded utilities.

So those costs are what we call sub-transmission costs and what the embedded utilities would call LV costs; that's a total of .9 million.

When you compare that to our allocated costs, that's already built into our allocated costs. So the comparison would be 36.9 plus 2.1 million for depreciation, plus the .9 million for those embedded distribution costs, embedded distributor costs, for a total of 39.9. And yes, 39.9 is slightly less than the 41.3 million that we allocate to them.

MR. SHEPHERD: Is this in the record somewhere, this -- like for example, that you just added .9 that I hadn't stumbled across during the course of my analysis.

MR. ANDRE: No, in it isn't. I'm putting it on the record now that there are embedded distributor costs that the -- that they would have been paying, and so for an appropriate comparison between what's allocated versus what they would have paid if they had been stand-alone, I believe that those are fair costs to include in the comparison.

MR. SHEPHERD: So when you have, for example, page 37 of our compendium -- this is JT3.18 sub 19 -- when you say the status quo revenue requirement is 36.9, the Board should simply ignore that because that's not correct, right?

MR. ANDRE: No, the -- so those are the costs, the forecast OM&A costs that the acquired utilities would have had had they not been acquired, plus all of the depreciation return on debt, return on equity and income tax associated with the rate base that was added to Hydro One.

So that accurately portrays what it's portraying, which is cost associated with the rate base that was added associated with the acquired utilities.

But what I'm saying is if you want to make a comparison of what the true status quo costs would have been, if you wanted to calculate the depreciation had they stayed on their own, the depreciation costs would have been tied to the gross book value of the assets of the acquired utilities. They wouldn't have been tied to the rebased gross book value that occurred when -- and that, I mean, you're familiar with the rebased -- should I take you to...

MR. SHEPHERD: No, I'm asking a different question. I'm asking why is it that you have evidence like this from March 29th, that says "status quo revenue requirement 36.9 million" and now you're saying no, it's 39.99 million.

Is it 36.9 or 39.9, because in writing right here it says 36.9.

MR. ANDRE: And this is an accurate representation of the revenue requirement that was added to -- or the revenue requirement that would have been associated with the OM&A and rate base as currently defined for the acquired utilities; in other words, the reset rate base.

MR. SHEPHERD: So it's not status quo then, because status quo is what they would have had if they hadn't been acquired, right?

MR. ANDRE: Yes.

MR. SHEPHERD: So it's not status quo, in fact, at all?

MR. ANDRE: When I looked at this interrogatory for the purposes of preparing for this hearing, I realized -- I went back to where that depreciation came from and I saw that the depreciation was calculated on a rate-base amount that really reflected the net book value at the time of integration into Hydro One.

And I think for the purpose comparing to the allocated costs, I believe that a more appropriate comparison under the depreciation item would be the depreciation of their gross book value of assets.

MR. SHEPHERD: So you also have -- if you turn to page 29 of our materials, this is Staff 264 -- you have a forecast of basically the stand -- the escalated rates, right?

MR. ANDRE: Give me a minute to turn to that.

MR. SHEPHERD: It is page 29 of our materials.

MR. ANDRE: Okay. Sorry, what's your question?

MR. SHEPHERD: So this is escalated from what they were when you acquired them, right?

MR. ANDRE: Yes, this is escalated per the methodology, you know, the IRM increases and the cost of service increases to their rates.

MR. SHEPHERD: Okay. So if we add all these up with the building determinants, are we going to get 36.9 or 39.9?

MR. ANDRE: Neither. This is a different basis for escalating the rates. We've talked about how this escalation of rates is determined. It's either an IRM increase, like a typical IRM increase for a year, or the average cost of service increase if they were due for a cost of service filing.

MR. SHEPHERD: So what should the Board be comparing to what you're charging and what you're allocating to these customers? Should it be this particular strawman, or this other strawman? Which one?

MR. ANDRE: So in my opening statement, I pointed out that there's really two comparisons that exist. There is a comparison of the bill impacts per the Board's methodology that exists in the response to CCC 68, and so that compares the -- and this is per how the Board wants to see the comparison. Their existing rates, so they're frozen rates from 2013, 2014, to what Hydro One is proposing to charge in '21. So that's one comparison.

Then the other comparison is in Q1, which is the rates escalated per the methodology that we've laid out and that gives them a sense of what the rates might have been -- what our estimate is of what those rates might have been had they not been acquired.

So we think the best comparison is one that looks at rates. The other table is looking at costs.

MR. SHEPHERD: Okay. So bottom line is no matter how do you it, the acquired aren't paying for all of their costs, right? They are being subsidized by the legacy customers. And I know you don't like the word "subsidy", but you did admit it at the technical conference that it's sort of a subsidy, right?

MR. ANDRE: Yeah, their revenue-to-cost ratio is 80 percent for most classes. In come cases it is up around

86 percent, but, yes, it is below one.

MR. SHEPHERD: And when you forecast the savings for these customers at the time of the MAADs applications, did you tell them what their rates were going to be when they were brought into Hydro One?

MR. ANDRE: No, as I recollect the discussion about rates was we laid out several options in terms of how their rates might be set at the time of rate harmonization. That was a matter that was not discussed as part of the MAADs application, per the rules, my understanding, anyway, of how MAAD applications are intended to work, but there was just -- there was no discussion of the rates specifically, there was only a discussion of the process that would be used for setting the rates.

MR. SHEPHERD: And at that time you expected to use the old method, didn't you, that your original plan was that you would simply fold these acquired utilities into your legacy rate classes and harmonize, right, as you did with the other 92 you've acquired?

MR. ANDRE: I believe that was one of the options. I think we laid that as one option. We could create new rate classes to serve them was the other option, and I think the third one was, you know -- I can't recall, but I do recall there was a third, more generic option, so the potential to create new classes was discussed at the time of the MAADs, as far as I can recollect. I don't know if it was for all three, but I know that was discussed.

MR. SHEPHERD: So during the -- for these three acquired utilities, you have had savings, right? You have had savings over the last seven, eight years that you've owned them, or the total seven, eight years until you integrated, right?

MR. ANDRE: That's my understanding, yes.

MR. SHEPHERD: But you said -- and if you go to page 54 of K10.7, you said at the technical conference -- and I'm quoting you on line 23, "The savings are to Hydro One as a whole." Right? It's not savings to the acquired customers, it's savings to the enterprise, and then you have to figure out who gets them, right?

MR. ANDRE: Yes, so as an example, if the utilities had stayed on their own I think they would have been spending 19.7 million on OM&A costs and when they are integrated into Hydro One there is only a ten point -- I can't remember -- 10.1 or 10.7 in incremental OM&A, 10.7, my colleague confirms -- so that's the incremental OM&A that Hydro One has to spend to serve those same acquireds, as opposed to the 19.7 in OM&A that they would have served had they remained independent.

MR. SHEPHERD: Well, that's not their savings, though, right? That is total savings, because you are actually allocating 17 million to acquired customers; right?

MR. ANDRE: That is the savings to Hydro One to serve both its existing customers and the acquired customers.

MR. SHEPHERD: So here's where I'm going with this: I'm right, am I not, that for the 92 acquisitions you did before these three, you simply folded them all in, and they went into the -- your existing rate classes; it took a while, because some of them had big rate increases, right?

MR. ANDRE: That's right, it took -- the integration period for some of the classes was four years.

MR. SHEPHERD: And it's true that some of them had two, three, four hundred percent rate increases, right?

MR. ANDRE: I recall there was one utility -- it was Ailsa Craig -- that did have a significant increase. I can't remember the exact amount, Mr. Shepherd.

MR. SHEPHERD: Well, lots of them had very significant increases, right? Lots of them had more than 100 percent increases, right?

MR. ANDRE: Well, and I think it was that experience, in terms of attempting to fold acquired utilities into Hydro One's existing rate structure that drove the Board in the decisions for these three acquired utilities to say, no, you have to make sure that you charge them their cost to serve, because by being folded into either our R2 or R1 class, yes, it did generate those kinds of large impacts, and I think it drove the thinking with respect to the new -- the three acquired utilities.

MR. SHEPHERD: So issue 56 in this proceeding says -- and I can read it:

> "Due to costs allocated to acquired utilities appropriately reflect the OEB's decisions in related Hydro One acquisition proceedings."

And you've tried to do that by taking a new approach to both cost allocation and rate design for acquireds;

right?

MR. ANDRE: Yes, that's correct.

MR. SHEPHERD: And you discuss that, if you look at page 58 of our materials, you discuss that at the technical conference. Basically you changed it after, what, the Norfolk decision, or maybe after the Woodstock decision, you changed your approach?

MR. ANDRE: Sorry, could you point me to -- I'm not sure what you're referring to. You point me to a page, but --

MR. SHEPHERD: Well, okay. So it is page 174 of the technical-conference transcript, and you talk about how the previous utilities were done on a different set of rules. And now you say the direction from the Board with respect to these three utilities was different.

MR. ANDRE: I believe that's what I just said before as well.

MR. SHEPHERD: All right. And so for the new ones -- for the old ones the legacy customers didn't get -- sorry, the acquired customers didn't get any of the savings that came about as a result of being acquired, right? They got whatever rates everybody else had, and if they were lucky, maybe they got some savings, but there was no design in it, right?

MR. ANDRE: Yeah, the approach as approved by the Board for those utilities was to merge them into Hydro One's existing classes, so whatever rates they paid as a result of being merged into Hydro One's existing classes, that's the rates they paid.

MR. SHEPHERD: And, in fact, you had to ultimately create an urban class, because some of the rate increases for urban customers were way out of line with what it actually cost to serve them, right?

MR. ANDRE: I don't believe that's correct, Mr. Shepherd. I think the urban class was created in the mid-'90s, is my recollection, and the acquired utilities, the acquisition of the 80 utilities that you are referring to would have been early 2000, so as far as I know, I think it was -- the urban class was created in the mid-'90s.

MR. SHEPHERD: I misspoke, and the integration was actually 2007, I believe, but this --

MR. ANDRE: Right. The acquisition was in the early 2000s. The integration was 2007.

MR. SHEPHERD: But didn't you then have to redefine the urban class to expand the number of customers in the urban class because it was out of whack with your cost allocation?

MR. ANDRE: So I was involved in that 2006 proceeding as part of the applications group, and, no, Mr. Shepherd, I don't recall that.

MR. SHEPHERD: All right, I'll refer to the documents in argument.

What I'm trying to then get to is under the new system, under the new rules, you have to allocate the benefit of consolidation between legacy customers and acquired customers, and do you have a principle for doing that?

MR. ANDRE: Our -- the basis for allocating the costs isn't premised on allocating benefits, you know, to one group of customers versus another group of customers. I think we've laid out in the evidence what our basis is. We have the total Hydro One costs of serve -- in 2021 of serving both Hydro One's legacy customers plus the acquired customers, and then we use the Board's cost allocation model with its embedded principles in terms of how to allocate the costs by the different U.S. of A. cost categories. We allocate that to all the classes.

We then looked at how much was getting allocated to the acquired classes per the Board's methodology and then applied adjustment factors, and the adjustment factors were applied to the asset costs to make sure that if we just follow the model rules, if they wanted to allocate, you know, 200 million in asset costs to the acquireds but we know based on the data, you know, based on their asset cost at the time of acquisition plus all of the in-service additions up to 2021, we know how much assets are actually being used to serve the acquireds.

So we applied adjustment factors to lower the assets assigned to the acquireds, because the asset costs are the main driver of both OM&A and asset-related costs -- like, you know, net income, debt, depreciation, so all of those sort of rate-base-related costs, so those adjustment factors were applied to the costs allocated per the Board's model. It didn't have anything to do with specifically allocating the benefits.

MR. SHEPHERD: I understood you to say -- and maybe I misunderstood -- I understood you to say both in the technical conference and here today that the Board gave you direction those acquired customers had to get some of the benefit and if they didn't get some of the benefit then you were not following what they wanted. Isn't that right?

MR. ANDRE: No, Mr. Shepherd, my understanding of the direction from the Board is that at the time we set the rates that we charge them rates that reflect the cost to serve them. That's the language that's, you know -- that's in the MAAD decision, if you want me to take you there. But that's my understanding of what's in the decision.

MR. SHEPHERD: So Hydro One's belief then is that if the cost to serve them from Hydro One is higher than the cost to serve them when they were independent -- which it is, in fact -- then that's okay. If they get a rate increase because they're owned by Hydro One, tough luck, right? That's okay?

MR. ANDRE: That's the cost that we propose in the application because it follows Board-accepted principles. You know, what we're doing is we're adjusting the revenue-to-cost ratios in some cases. If the Board believes that it is not appropriate to adjust the revenue-to-cost ratios -- I believe there was an interrogatory from VECC that suggested perhaps a wider range of revenue-to-cost ratios might be appropriate given some of the uncertainty around the allocating of costs to the acquireds, that's an option.

What we've put in front of the Board is what we believe is something that's consistent with cost allocation principles that the Board has embedded into their model, and we made adjustments to align those assets to make sure that not more -- more assets aren't being allocated to the acquireds than what we've determined is required to serve them, and the outcome is the outcome.

But I think there is some freedom and flexibility in some of our choices in terms of the costs that end up getting allocated to the acquireds that, you know, is within the Board's decision -- powers to say we want you to do it somewhat differently.

MR. SHEPHERD: You told the Board when you bought these utilities that the cost to serve them was going to be lower than if you didn't buy them. That's not true, is it? We know that it's higher, in fact.

MR. ANDRE: Mr. Shepherd, my understanding of what we told the Board was that the total cost to serve, the combined -- the total cost to serve these acquired utilities would be less than if they had stayed on their own. So let me use as an example, I'll go back to that one.

The 0M&A costs for the three acquired utilities would have been 19.7 million if they had stayed on their own. By being integrated into Hydro One, the incremental cost that gets added to Hydro One's costs to serve Hydro One plus the acquireds is just 10.7 million.

So it doesn't cost -- the combined cost is not 19.7

more; it's just 10.7 more, so there are savings there. And I believe that's the savings that we referred to in the MAAD application.

MR. SHEPHERD: Yes, I guess I'm -- the cost to serve them is in fact 42.2 million, right? We know that because your cost allocation model says so. And you're not charging them that much and they wouldn't have paid that much. So it's costing more, isn't that right?

MR. ANDRE: The allocated cost to serve per the cost allocation model, and including the adjustments that we've made, yes, is $41.3 million.

MR. SHEPHERD: So when you said to those -- to the people in those towns, the people in Woodstock, for example, when you said to them no, it's going to cost us less to serve you, that wasn't true and you knew it wasn't true, right? You knew then it wasn't true?

MR. ANDRE: No, I absolutely disagree with that. You know, I think we've -- the two tables that we've pointed to and that I've highlighted for the Board as part of my opening statement shows that whether you measure the impact relative to what their current rates are now, the frozen rates that were frozen in '13 and '14, and compare them to what we're proposing to charge in '21 on a total impact -- on a total bill basis, those increases are in the 2 to 3 percent range, having been frozen by 2021 by about seven years, in some cases.

Or if you want to look at the comparison that says what are we proposing to charge versus what their rates would have been assuming typical IRM and cost of service increases, what you actually see is a decrease in the total bill for all three classes, in all three utilities.

MR. SHEPHERD: Again, you're mixing up rates and class, right? Something that, by the way, we were vilified for in the MAADs applications. But in fact, it's true, isn't it, that your rates are proposed to be lower than the acquireds would have paid because of the revenue to cost ratio and because of your adjustment factor, right?

MR. ANDRE: Well, I agree about the revenue-to-cost ratio. I think that the adjustment factor is simply good sound practice to make sure that we can follow the Board's direction in terms of the costs that get allocated to the class.

The resulting revenue-to-cost ratios, the fact that we only moved them to within the Board range, to me, I think that's acceptable as well.

The Board has to defined that range in recognition of the fact that cost allocation isn't precise. So by moving them to within the range, I believe we are achieving the Board's objective of charging them the cost to serve.

MR. SHEPHERD: I want to turn to the adjustment factors, and we had a discussion about this in the technical conference and that's at pages 56 and 57 of our materials. I'm not going to go over that again.

Let me just summarize. These adjustment factors adjust the assets allocated to the acquired classes only -- not their OM&A or anything else, the assets and the costs that flow from assets, right?

MR. ANDRE: Yes, you're right.

MR. SHEPHERD: So it ends up adjusting depreciation and cost of capital and PILs and those things, but not OM&A.

MR. ANDRE: No, the OM&A cost -- there are certain elements of the OM&A costs that are also driven by the amount of assets that are allocated to a particular class.

The bulk of the OM&A costs -- I don't have an exact number, but I would say probably more than 50 percent or 60 percent. And then there are some OM&A costs that are allocated based on number of customers, weighted number bills, so we would use those allocators.

But adjusting the assets, Mr. Shepherd, does have a big influence on how much OM&A gets allocated to the classes.

MR. SHEPHERD: All right, because I didn't see a big change in those things before and after. Maybe I'm just missing it.

If you take a look at page 35 of our materials, this is your change in allocations for gross and fixed assets, right, from your own spreadsheet?

MR. ANDRE: Yes, it's from the spreadsheet, so it shows the total GVB that is being allocated and then how much -- total GVB that should be allocated and how much is being allocated, and therefore that drives the allocation factors.

MR. SHEPHERD: If I understand this correctly -- and tell me whether this is right -- the theory is that the cost allocation model allocates too much of the distribution stations, it's primarily the distribution stations, to the acquireds, and it's really sort of more a local cost. This is what you said earlier, right?

MR. ANDRE: Yes, that was the adjustment made in the Q Exhibit was to deal with the stations.

MR. SHEPHERD: All right. So what you did is you said okay, well we have -- and if you take a look at page 35 again, you'll see we have $271 million of gross fixed assets that should be allocated to the acquired classes, but the cost allocation model is actually allocating 532 million, right?

MR. ANDRE: Yes, that's what that is showing. So the cost allocation model -- so it would allocate costs for these various US of As based on the peak loading, based on sharing Hydro One's total asset cost in a particular US of A account, and then sharing that total asset cost for a particular account based on the 12, the 12 NCP values for the classes.

So it would be using the Board's cost allocation principles for allocating costs across classes.

MR. SHEPHERD: So you see, for example, line 1820, that's US of A 1820, right, the CAM, the cost allocation model, allocate 40.6 million. But you are saying no, the actual amount that should be allocated to these guys is 8.2 million, right?

MR. ANDRE: So could you just scroll over a little bit? So I see the 8.2 and yes, so the cost allocation model would have allocated 40.6, yes.

MR. SHEPHERD: And that's distribution stations under 50 include kilowatts.

MR. ANDRE: Yes, that's the account, 1820.

MR. SHEPHERD: And then 1830 is poles, right? Poles and lines?

MR. ANDRE: I believe so.

MR. SHEPHERD: So the cost allocation model allocates 168 million, and you're saying no, no, no, that should be 80.3 million.

MR. ANDRE: And we're saying no, no, no, to use your words, because when we look at the actual 1860 assets of the three acquired utilities at the time of integration, and then we add in how much did we add to 1860 in-service additions in capital work from the time of integration to 2021, that's the actual -- so it starts with the actual cost of the acquired utilities and adds the in-service additions as per our evidence, and it lands on 80 million in 1830 US of A.

And so following the Board's direction and knowing that that assignment of assets is going to drive the bulk of the cost allocation within the model, we want to get -- we want to make sure that we're assigning the appropriate amount of assets to the acquired utilities, so we have to reduce that 168 in the case of account 1830. We have to reduce that 168 down to 80.

MR. SHEPHERD: Well, okay. But you didn't actually do that, though, right? You didn't actually reduce the 168 down to 80. What you did instead is you said, let's calculate the ratio of what the CAM produces and what we think is correct and that ratio will then be applied going forward. And that's your adjustment factor?

MR. ANDRE: Yes, so the adjustment factor isn't by individual US of A, it is for the sum of the US of A, so the adjustment factor for each of the acquired utilities would take the bottom-line number there of 531,948,000 and would bring that down to 271,022,000.

MR. SHEPHERD: So the obvious question is: Why didn't you just adjust the numbers directly rather than creating this adjustment factor?

MR. ANDRE: Adjust which numbers?

MR. SHEPHERD: You know what the right numbers are. Why didn't you allocate the right numbers instead of the wrong numbers?

MR. ANDRE: So right now we have this data on the acquired utilities. We are able to make this adjustment. Going forward, we won't have separate data for the acquired utilities. All we have -- all we'll have is the total data for Hydro One as a whole, and so we need something that can work with the Hydro One data in total and still arrive at the appropriate number for the acquired utility, so adjustment factor allows us to do that going forward.

MR. SHEPHERD: So what you are doing is you're assuming that whatever the ratio is of the cost allocation outputs to the correct number, that relationship is going to continue into the future.

MR. ANDRE: Yes, that's the assumption we've made, and we have indicated that we would potentially revisit those allocation factors, but, you know, in the long-term there may be a need to revisit that, but right now that is the assumption that is built into the process that we've adopted.

MR. SHEPHERD: Well, you just said that going forward you are not going to have the information. How are you going to revisit it if you don't have the information?

MR. ANDRE: I think people raise the point that in 40 years after all of the assets have been replaced, you know, is it still appropriate to use those adjustment factors, and we concede that once all of the assets have been replaced, and that happens over a very long period of time, that it may be necessary to revisit it. I can't tell you right now what we would do. Certainly in the near-term, you know, in the next five, ten years, we believe the adjustment factors as proposed in our application would be appropriate.

MR. SHEPHERD: So what you are proposing to this Board is that, going forward, if you add distribution stations -- or indeed any of those assets, anywhere in the province -- these acquired customers are going to bear some of the cost?

MR. ANDRE: That's exactly right. And, sorry, just let me finish -- and in the same way, if we happen to need a distribution station within Woodstock because their load is growing or a new auto plant sets up or -- then that cost would be shared among all of the other Hydro One customers, so it works both ways.

MR. SHEPHERD: So these costs -- this whole category of costs is going to be socialized going forward between all of your customers across the province?

MR. ANDRE: Yes, that's correct.

MR. SHEPHERD: All right, except that these customers pay a lesser share than your legacy customers?

MR. ANDRE: They would pay the -- so the adjustment factors would apply to whatever rate base exists in the future; that's correct.

MR. SHEPHERD: So -- and this -- this adjustment doesn't apply to any other customer, so, for example, the 92 utilities you've applied so far -- you've acquired prior to this time, they all had the same issue, but you didn't adjust for that and you're not going to; you're not proposing to.

MR. ANDRE: That's correct.

MR. SHEPHERD: And so if you spend a million dollars on a station in Ancaster, then they'll all pay, except these three utilities, the customers of these three utilities, which will pay about half or so?

MR. ANDRE: The -- yes, that is an outcome of the adjustment factor approach, would be that they -- the acquired utilities would get a share of whatever growth happens, you know. I would state again that if there was a station that was built specifically for Woodstock or

Norfolk or Haldimand, they would too only get a 60 percent share of that cost of the station.

MR. SHEPHERD: And this problem, this problem is an artifact of postage-stamp rates, right? It only exists because of postage-stamp rates?

MR. ANDRE: Yes, I mean, the socializing across a utility like Hydro One that serves the whole province, and so we have one rate for a particular class regardless of where in the province you are, if that's what you are referring to postage-stamp rates, then I would say, yes, that is an outcome of postage-stamp rates.

MR. SHEPHERD: And the difference between these acquireds and the previous acquireds or your legacy customers for that matter, the difference between them in terms of treatment, which sounds -- you will agree it sounds on the face of it it isn't very fair -- is the result of the Board saying, no, these guys -- these three at least, you can't ask them to pay more than their fair share of the cost to serve them, right? Which is the first time you've heard that.

MR. ANDRE: That is the direction we were given in the MAADs decision and that's the direction we're following.

MR. SHEPHERD: Mr. Chairman, that's probably a good time to take a break.

MR. QUESNELLE: Yep. Thank you, Mr. Shepherd.

Ms. Anderson has a question.

QUESTIONS BY THE BOARD:

MS. ANDERSON: Sorry, I just have one clarification.

Much earlier you were talking about the revenue requirement for the acquireds of 836.9, but you had mentioned some adjustments, and you mentioned a .9 for embedded distributor costs. Is that low-voltage charges that Hydro One would have charged to these acquireds?

MR. ANDRE: That's correct, so we would have charged -- we call them sub-transmission, or ST charges. That would have been the charge for Hydro One to the acquireds, and then they would have -- they in turn call it an LV, low-voltage charge, that they charge to their customers.

Those costs are embedded in our allocated costs, so they are part -- I mean, they are getting a share of all upstream costs, so they are embedded in the allocated costs, but they wouldn't be part of the number that you saw in that interrogatory, so that's why I wanted to highlight it.

MS. ANDERSON: So they would have been part of the bill of the acquireds to their customers but not part of their distribution; is that right?

MR. ANDRE: Exactly right. Exactly right.

MS. ANDERSON: Thank you.

MR. QUESNELLE: Okay. With that we'll adjourn until Thursday morning at 9:00 a.m. Thank you.

--- Whereupon the hearing adjourned at 4:59 p.m.