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Hydro Ottawa Limited

Application for electricity distribution rates for the period from January 1, 2016 to December 31, 2020.

Hearing held at 2300 Yonge Street,
25th Floor, Toronto, Ontario,
on Friday, August 14, 2015,
commencing at 9:38 a.m.

TECHNICAL CONFERENCE

A P P E A R A N C E S

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CHRISTIE CLARK KARL HEIMLICH	Board Staff
FRED CASS GEOFF SIMPSON GREG VAN DEUSEN	Hydro Ottawa Limited
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RANDY AIKEN	Energy Probe Research Foundation
JAY SHEPHERD	School Energy Coalition (SEC)
MARK GARNER BILL HARPER	Vulnerable Energy Consumers' Coalition (VECC)

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Friday, August 14, 2015

--- On commencing at 9:38 a.m.

MS. HELT: Good morning, everyone, and welcome back to today's technical conference. This is the second day of the technical conference for Hydro Ottawa Limited's application for electricity distribution rates for the period from January 1, 2016 to December 31st, 2020, EB file number 2015-0004.

Yesterday afternoon when we concluded Mr. Shepherd had commenced his questions with respect to Exhibit A/1. So we will continue on from there.

I would just like to remind parties that the purpose of the technical conference is to ask questions of a clarifying nature of the interrogatories in the application. It is not an opportunity for cross-examination, so if parties can keep that in mind when they are framing their questions, that would be helpful.

Mr. Cass, I believe you have some preliminary remarks.

PRELIMINARY MATTERS:

MR. CASS: I just wanted to update everyone on the undertaking responses from the first panel. When I spoke yesterday about this the people working on the answers were trying to get a sense of whether they could answer them all by end of day today.

It now looks like that's not going to be possible. I think there were 18 given by the first panel, and many of them can be answered by end of day today, but there are a number, I think it's around seven, in respect of which it is not going to be possible. It will probably be something like Wednesday for all of them to be answered. Those are the undertakings from the first panel.

Just one other very minor preliminary matter. I understand that at transcript page 111, line 10 there was something that was intended to be a reference to Exhibit E, tab 1, schedule 1, and if you actually look at that line it does not appear that way at all. It's perhaps not even recognizable as what it was meant to be. So just so that people are aware of that, line 10, page 111 of the transcript, there should be a reference to Exhibit E, tab 1, schedule 1, page 1. Thank you.

MS. HELT: Thank you, Mr. Cass. We will make sure we look into the transcript issue.

Mr. Shepherd.

HYDRO OTTAWA LIMITED - PANEL 2, RESUMED

Bill Bennett

Angela Collier

Pamela Jones

Mike Grue

April Barrie

EXHIBIT 1/EXHIBIT A

QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: Thank you. So I'm still on SEC No. 1, but I just have one more question on this one. And that is, if you take look at page 4 of that response, you will see under (b)(i), and then again on the next page on (b)(ii), there is a reference to -- the phrase is "substantial evidence for a bias against the largest distributors in Ontario".

And I'd like to understand what Hydro Ottawa means by that. Are you suggesting that the Board has a bias against the largest distributors in Ontario, or their methodology has a bias? Or -- perhaps you can help with us that.

MS. JONES: I think the finding that's referenced in this response is with respect to the methodology.

MR. SHEPHERD: So the Board's efficiency methodology has a bias against the largest distributors?

MS. JONES: That that's an observation that is being provided, yes.

MR. SHEPHERD: And Hydro Ottawa agrees with that? This is supplied by your expert. I don't want to put the words of your expert in your mouth if you don't agree with it. If you do agree with it, please tell me.

MS. JONES: We believe that the methodology would need to factor in variables that would consider the conditions and the uniqueness of large distributors.

MR. SHEPHERD: And it doesn't?

MS. JONES: Perhaps not to the extent it should.

MR. SHEPHERD: Okay. Thank you.

My next question is on SEC No. 3, and what we asked you for is that you have some new outcomes that you are proposing in D1-6. And so we asked you for a list of them and how much each one costs, because we want to see, obviously, how much -- what are the ratepayers getting for what amount of money.

What you gave us was a total, 4.4 million of operating expense and 2.6 million of capital expenditure, but you haven't broken it down between the various outcomes that you've listed. I wonder if you could do that.

MR. BENNETT: We could take that as an undertaking.

MR. SHEPHERD: Awesome. Thank you.

MS. HELT: That will be Undertaking JTC2.1.

UNDERTAKING NO. JTC2.1: TO PROVIDE A LIST OF THE OUTCOMES AND THE CORRESPONDING COSTS WITH RESPECT TO EACH OF THE OUTCOMES, IN RESPONSE TO SEC NO. 3, NEW CUSTOMER SERVICE OFFERINGS AND BENEFITS

MR. SHEPHERD: Are the undertakings from yesterday supposed to be 1 point --

MS. HELT: Yes, but we didn't do that, so we will just refer to them as the numbers as they were referred to yesterday, and then today we will start with 2.1.

Thank you, Mr. Shepherd.

MR. SHEPHERD: The next one is --

MR. BENNETT: Sorry, for my purposes, what -- the specific expectation of the undertaking?

MS. HELT: It is to provide the -- a list of the outcomes and the corresponding costs with respect to each of the outcomes. This is in response to SEC No. 3.

MR. SHEPHERD: This is the new customer service offerings and benefits.

MR. BENNETT: Thank you.

MR. SHEPHERD: Then the next one is SEC No. 5. And you answered the first part of the question, but you didn't answer the second part of the question, which is, can you provide us with the cost of capital forecast that you have in your possession, including internally-generated ones.

You've done your own forecasting of cost of capital over the five-year period, presumably, so that you know that you'll have enough money. Can we have those various forecasts that you have?

MR. GRUE: I guess I responded to the question by saying basically we had done our cost-of-capital forecast really only for long-term debt. We are using the Board-issued rates for short-term and ROE, so for the long-term we have used the consensus long-term forecast, which was provided in the evidence. So we don't really have any -- maybe I don't quite understand when you say long-term forecast of our capital requirement, but again, in the evidence we have -- you know, we need to borrow X amount each year, and that's what we have applied the long-term consensus forecast to -- we don't really have any other forecasts, other than what's been provided.

MR. SHEPHERD: We asked you to provide all cost-of-capital forecasts for debt or equity in your possession covering the test period. Are you telling us that you don't have any others, other than the consensus forecast? Because that would be very surprising.

MR. GRUE: For the cost of debt?

MR. SHEPHERD: Or equity.

MR. GRUE: No, that's what we have.

MR. SHEPHERD: So how many capital forecasts or investment bank forecasting services do you subscribe to?

MR. GRUE: Oh, in that regard, yeah, but they don't go the five years. I get information from three or four different investment banks. Typically I have the one from BMO that might go out 18 months.

MR. SHEPHERD: Yes.

MR. GRUE: So I can certainly provide that if you'd like that.

MR. SHEPHERD: Don't you have to report periodically to your board of directors on your forecast of the cost of capital?

MR. GRUE: No, we don't.

MR. SHEPHERD: They don't ask you, How much is debt going to cost next year or the year after? What's our -- what are we looking at in terms of trajectory up or down?

MR. GRUE: No, they don't.

MR. SHEPHERD: The BMO forecast I don't need. That's fine.

The next is SEC No. 7. We asked you to calculate the annual rate impact of the facilities implementation during both -- included in the application and not included in the application, but in your current forecasts internally.

And you said, Look at OEB Staff question 1, so I looked at OEB Staff question 1. I can't find it there. Can you show me where it is, please?

MS. BARRIE: So we have been providing OEB 1, because OEB 1 was a large ask to redesign all the rates, so we have been giving it incrementally, and that will be in the next piece.

So if you'd like me to put that as an undertaking, I can do so.

MR. SHEPHERD: Sorry, it will be in the next piece?

MS. BARRIE: Like, I can take that as an undertaking. We just haven't been able to -- we haven't calculated that yet. We first had to work on the new cost allocation, the new rate design, when the model came out July 12th, I think it was.

MR. SHEPHERD: Sorry, we're having a technical conference and you haven't finished answering your IRs?

MS. BARRIE: On that one I have not answered, no. At the same time the model came out during the IR process.

MR. SHEPHERD: I'm going to ask for two undertakings, then. First, I'm going to ask for the undertaking to provide us with the specific breakdown requested in SEC No. 7.

MS. HELT: That will be undertaking JTC2.2.

UNDERTAKING NO. JTC2.2: TO PROVIDE US WITH THE SPECIFIC BREAKDOWN REQUESTED IN SEC NO. 7

MR. SHEPHERD: Then what I'd like you to undertake to advise is what parts of the interrogatories -- any of the interrogatories -- have you not yet answered. Just give us a list.

MS. BARRIE: Okay.

MS. HELT: That will be undertaking JTC2.3.

UNDERTAKING NO. JTC2.3: TO PROVIDE A LIST OF WHAT PARTS OF ANY INTERROGATORIES HYDRO OTTAWA HAS NOT YET

ANSWERED, AND WHEN HYDRO OTTAWA EXPECTS TO ANSWER THEM

MR. SHEPHERD: In that undertaking, if you could let us know when you expect to answer them, that would be useful. Could you do that?

MS. BARRIE: Yes.

MR. SHEPHERD: Thanks. My next question is SEC No. 8. This right to Y factors and Z factors, and my question is this: With respect to -- let me start with the Y factor.

In the Y factor, you haven't included the non-land costs of the administration and operational buildings in your forecast, your rate -- your revenue requirement, right?

MS. BARRIE: We haven't put them in the base revenue requirement? No, we have not.

MR. SHEPHERD: So the Y factor then goes only one way; it can only increase rates, right? It's not a symmetrical; it can only increase rates?

MS. BARRIE: That's correct.

MR. SHEPHERD: okay. Now with respect to the Z factors, you described the Z factors as applications to recover costs, et cetera, et cetera.

But my understanding of Z factors is they cut both ways. That is, they are symmetrical and you are obligated to file if that external event causes a cost to go down and its material; do you agree?

MS. JONES: In the 17-odd years working in regulation, I've never seen a Z factor. But we will -- subject to check, we will, we will undertake to confirm that for you.

MR. SHEPHERD: Okay. I'm asking what you're asking for in your application. Are you asking for a one-way Z factor, or a symmetrical Z factor?

MS. JONES: We haven't filed for any Z factors. We've suggested that if an event were to take place, the costs for which were not foreseeable or foreseen, that we may apply for a Z factor.

MR. SHEPHERD: So it's at your discretion?

MS. JONES: Discretion from the perspective of not filing for the Z factor and absorbing the cost? Is that what you're --

MR. SHEPHERD: Yes. You can apply for a Z factor or not; it's up to you, right? If you qualify; you still don't have to apply for it?

MS. JONES: That's correct.

MR. SHEPHERD: So you don't, then, as far as I understand, have an obligation to file if the Z factor works to the benefit of ratepayers, right?

MS. JONES: I suppose that is also correct.

MR. SHEPHERD: All right. Do you want an undertaking to clarify that? That's not my understanding of the Board's policy, and that's why I'm asking. I'm inviting you to take the undertaking.

MS. JONES: I will undertake to confirm that for you.

MS. HELT: Undertaking JTC2.4, an undertaking to confirm Hydro Ottawa's position with respect to applying for a Z factor, and if there is an obligation or if it is discretionary.

UNDERTAKING NO. JTC2.4: TO CONFIRM HYDRO OTTAWA'S POSITION WITH RESPECT TO APPLYING FOR A Z FACTOR, AND IF THERE IS AN OBLIGATION OR IF IT IS DISCRETIONARY

MR. SHEPHERD: My next question is on SEC 9. My school board people said we don't understand their math.

So, let me ask you this: Look at table 1, and you will see the 2015 distribution charge for this typical school is $617.73 per month, right?

MS. BARRIE: Sorry, which line are you looking at? Oh, sorry. Yes.

MR. SHEPHERD: It's your table.

MS. BARRIE: I just wasn't sure which line you were referring to. I see it now.

MR. SHEPHERD: So $617.73 per month, right?

MS. BARRIE: Yes.

MR. SHEPHERD: So we said on the previous page $7,412.76 per annum, which appears to us to be identical to what you suggested; is that right?

MS. BARRIE: For 2015, yes.

MR. SHEPHERD: Okay, and similarly in 2020, you've said $899.30 per month; do you see that?

MS. BARRIE: Yes.

MR. SHEPHERD: And we said $10,791.60 per year and that, too, is exactly the same, isn't it?

MS. BARRIE: When I looked at it, I remember there being a bit of a difference, but --

MR. SHEPHERD: Wall, I just multiplied --

MS. BARRIE: Not on the fixed charge but on the --

MR. SHEPHERD: -- $899.30 by twelve, and I got $10,791.60.

MS. BARRIE: Okay.

MR. SHEPHERD: Is my math wrong?

MS. BARRIE: I can look at that. I just remember there being a slight difference when we looked at it.

MR. SHEPHERD: Why would you object to our numbers when they're right? I don't understand that.

MS. BARRIE: I'm not objecting to your numbers when they're right. I'm just recollecting that I had a small difference.

MR. SHEPHERD: Then you say there is a 39.1 percent increase, so I'm looking at a 281.57 increase -- that's your number, right?

MS. BARRIE: Right.

MR. SHEPHERD: And on 617.73, which is the 2015 number, I get 45.58 percent. Where did you get 39.1 percent?

MS. BARRIE: I can go back and relook, and see if I have an error in my calculation.

MR. SHEPHERD: See, the reason I ask is because we said 45.6 percent, and you said no, you're wrong, it's 39.1 percent. Didn't you check?

MS. BARRIE: I did check. But if you'd like, I can do another check.

MR. SHEPHERD: Sure.

MS. HELT: Would you like that as an undertaking, Mr. Shepherd?

MR. SHEPHERD: Sure, why not.

MS. HELT: JTC2.5, an undertaking for Hydro Ottawa to check the change in distribution charge as reflected as a percentage increase between the years 2015 and 2020.

MR. SHEPHERD: And to confirm the 899.30 and the 10,791.60.

MS. HELT: And to confirm the distribution charge totals for 2015 as 617.73, and for 2020 as 899.30.

MR. SHEPHERD: No, I'm sorry. I'm asking for them to confirm for the numbers we've put to them as being correct.

We put to them a number of 10,791.60, and they've said 899.30 per month. And the witness is now saying they're not sure that they're identical.

MS. HELT: All right.

UNDERTAKING NO. JTC2.5: TO CHECK THE CHANGE IN DISTRIBUTION CHARGE AS REFLECTED AS A PERCENTAGE INCREASE BETWEEN THE YEARS 2015 AND 2020; TO CONFIRM WHETHER THE NUMBERS PUT TO THEM FOR DISTRIBUTION CHARGE FOR 2015 AS 617.73, AND FOR 2020 AS 899.30 ARE CORRECT

MR. SHEPHERD: The next question is on SEC 11, and I'm looking at 11(b). We asked you for 2006 to 2020, and you gave us 2012 to 2020. Can you give us 2006 to 2020, please?

MS. BARRIE: What we've been undertaking to do is to go back to the previous rate application, which would be going back to 2011.

MR. SHEPHERD: I'm sorry, I asked for 2006. Will you undertake to provide that, please? We're trying to do a trend line --

MS. BARRIE: Well, I can understand that, and that is something that is relatively easy to do so. So for this case, I can do that, yes.

MS. HELT: Undertaking JTC2.6, to provide a table for the period 2006 to 2020, as set out in SEC-11(b).

UNDERTAKING NO. JTC2.6: TO PROVIDE A TABLE FOR THE PERIOD 2006 TO 2020, AS SET OUT IN SEC-11(B)

MR. SHEPHERD: And then the next part of this is in (c), and this relates to e-billing and MyHydroLink.

We asked you to provide the forecast of e-billing over the period 2020. You didn't provide that, and I'm not sure I understand why. Can you help us with why you don't have a forecast? You are trying to increase your e-billing, obviously. I mean, you are already leaders, and you want to continue to be even bigger leaders, right?

[Witness panel confers]

MS. COLLIER: So I believe the answer is provided.

MS. JONES: Paragraph 3, page 3.

MS. COLLIER: We have indicated that to the end of 2014 the promotional cost associated with e-billing was 400,000. So I'm not sure I'm clear what exactly you're looking for.

MR. SHEPHERD: Well, it says right in it:

"Please forecast those costs and savings together with the numbers of customers subscribed and signed up, as the case may be, for the period

2006 to 2020."

Where is that answer?

MS. COLLIER: So first of all, for '17 to '20 we have not forecast out to that level of detail. We've used a formulaic approach for OM&A. So this would be included in that.

I see in the response that 2016 is not provided, which there would be detailed forecasts for, so I can undertake to provide you 2016 information, but not '17 to '20.

MR. SHEPHERD: And here's what I'm trying to understand. This is an important initiative of Hydro Ottawa, right?

MS. COLLIER: It is an excellent initiative.

MR. SHEPHERD: And you've been very successful at it.

MS. COLLIER: Yes, we have.

MR. SHEPHERD: So when you are doing an initiative like that, usually an organization will have an internal plan: This is how much it's going to cost us. This is what we're going to achieve. And that plan goes out basically until you succeed, until you get everything you think you can get.

So I'm assuming that the people in charge of e-billing have been given a plan, a target, and told, This is where you need to go. This is what we expect of you, and this is how much it should cost to get there. Do you not have that?

MS. COLLIER: Most of our planning is done on an annual basis, so, no, we do not have forecasted cost and targets for e-billing out to 2020.

MR. SHEPHERD: Right. So -- but you will provide with us with 2016 forecast costs and --

MS. COLLIER: We can provide you with 2016, yes.

MR. SHEPHERD: -- benefits.

MS. HELT: JTC --

MR. SHEPHERD: And numbers.

MS. HELT: -- 2.7, to provide forecast costs and benefits for e-billing for the year 2016.

UNDERTAKING NO. JTC2.7: TO PROVIDE FORECAST COSTS AND BENEFITS FOR E-BILLING FOR THE YEAR 2016.

MR. SHEPHERD: I'm trying to -- this is (b). I don't want to ask questions on (b) yet. That's been asked.

My next question is on Staff No. 2. On the second page, starting at line 7, you talk about you would not file an annual application for distribution rates.

Do I understand you to be saying that you're asking the Board in this proceeding to provide you with a series of rate orders for '16, '17, '18, '19, and '20? Is that correct?

MS. JONES: Can you just point me to where -- to what you are referring to?

MR. SHEPHERD: Yes, it says -- on the second page of Staff 2 it says:

> "Hydro Ottawa will not file an annual IRM to change distribution rates, but instead an annual update to the transmission and connection rates."

MS. JONES: Are you looking at page 2?

MR. SHEPHERD: Oh, sorry, page 4. Page 4. Page 2 of your answers. My apology. Line 7. I'm just trying to get at the mechanism, because I've never seen anybody get a series of rate orders.

MS. BARRIE: So the plan would -- sorry, what we're asking for is rates, not all the way up to '20 right now. We're asking for '16, '17, and '18, and so those rates would be approved now as part of the annual -- at the same time we're requesting the annual transmission rates. That's when those rates would actually show up in a rate order, but the particular rates would be approved as part of this proceeding.

MR. SHEPHERD: So the Board only approves rates by a rate order, so I take it you're asking for a final rate order for each of 2016, '17, and '18?

MS. BARRIE: We would be with the change in the transmission network connection.

MR. SHEPHERD: So all of the other rates would be final, but the transmission and connection rates would be interim until you make a further application; is that correct?

MS. BARRIE: Correct.

MS. JONES: Correct.

MR. SHEPHERD: Then for '19 and '20 you are asking for rate orders, but they are entirely interim? Rather than put you on the spot, because I know this is a little bit technical, I wonder if you could undertake -- and this may be for Mr. Cass in the end -- I wonder if you could undertake to specifically advise exactly what orders you are looking for, covering what rates and for what periods.

MR. CASS: We can do that, Jay, yes.

MR. SHEPHERD: Thanks.

MS. HELT: That will be Undertaking JTC2.8.

UNDERTAKING NO. JTC2.8: TO SPECIFICALLY ADVISE EXACTLY WHAT ORDERS ARE BEING LOOKED FOR, COVERING WHAT RATES AND FOR WHAT PERIODS.

MR. SHEPHERD: The next one is still on Staff No. 2. I wonder if you could provide us with the calculations behind the second line -- second and third lines -- of -- or the third and fourth, I guess -- of table 1. So you see here "estimated net annual income under price cap", those calculations. And then "net income as a percentage of capital requirements", that line.

Can you provide us with those calculations?

MS. JONES: We don't have a calculator with us, so we'll undertake to provide those for you.

MR. SHEPHERD: It's an undertaking, yes.

MS. JONES: Pardon me?

MR. SHEPHERD: An undertaking.

MS. JONES: Yes.

MR. SHEPHERD: You have a spreadsheet that did this; right? So just give us the spreadsheet. That would be good.

MS. JONES: We can do that.

MS. HELT: That will be Undertaking JTC2.9.

UNDERTAKING NO. JTC2.9: TO PROVIDE THE SPREADSHEET

USED TO CALCULATE THE THIRD AND FOURTH LINES OF TABLE 1.

MR. SHEPHERD: Then my next is in Staff No. 4, and I'm at page 3, line 13, and you say:

"Hydro Ottawa's capital funding requirements do not incorporate the full system needs."

Do I take it from this paragraph -- and tell me whether this is right, because I think I've got it, but I'm not sure -- that you are not asking for as much as you need, being the absolute amount you have to spend, but you are anticipating that you are going to deliver productivity and efficiency that allows you to do everything you need but with the envelope of money that the Board -- that you've asked for in this proceeding; is that right?

MR. BENNETT: I would say that that's the gist of it, so the process for us in putting together the asset management plan and the capital program is to identify the need to maintain reliability -- based on the information we have, maintain reliability at the existing level and the existing band.

The proposal is not that spend. The proposal is less than that spend and our challenge then is, as you've described, to fill the gap with productivity or technology, or whatever to maintain the reliability despite the less-than-need spend we're proposing.

MR. SHEPHERD: I'm asking a slightly different question. You have need, which is -- let's call it a million dollars, and you have your application, which is

$900,000.

Am I understanding correctly that you have to find a way to do that million dollars' worth of work for $900,000? Is that a reasonable conclusion?

MR. BENNETT: Yes.

MR. SHEPHERD: Okay. So can you tell me what those numbers are? Can you tell me what the need number is, and then compare it to the -- show me a comparison of that need number to the application number -- unless it's already in the application, and I've just missed it.

MR. BENNETT: Well, overall, it's in the application and the -- just let me look here for a second.

MR. SHEPHERD: If I can short-circuit this, is the need number the departmental ask that we were talking about yesterday?

MR. BENNETT: The need number is the number identified in the asset management plan initially, so there's -- in a sense, there's two levels.

If I look at -- perhaps this could be useful -- OEB Staff 15, and I'm looking at page 27 of OEB Staff 15.

MR. SHEPHERD: Page 27?

MR. BENNETT: Yes.

MR. SHEPHERD: Okay.

MR. BENNETT: The asset management plan identifies for each of the assets the spend that we project to maintain the reliability at the existing levels of those assets, and that is put together in that plan.

The actual proposed spend -- the initial proposed spend, it you like, that we included was less than that, and the revised spend that is actually submitted is again less than that.

In the graph, for example, you can see that the system renewal and the system service spend proposed in the asset management plan, in the green and purple, and then the actual proposed in the orange and red, and the blue line was a roughed-in 5 percent per year increase. We are actually running about 2.5 percent per year increase over the period.

MR. SHEPHERD: Actually, the easiest thing would be -- this OEB figure, OEB 15-2, it looks to me like it was created from an Excel spreadsheet, right?

MR. BENNETT: Yes.

MR. SHEPHERD: Can we have that Excel spreadsheet so we can see the numbers, please?

MR. BENNETT: Sure.

MR. SHEPHERD: Thanks.

MS. HELT: JTC2.10, to provide the spreadsheet that supports figure OEB-15-2.

UNDERTAKING NO. JTC2.10: TO PROVIDE THE SPREADSHEET THAT SUPPORTS FIGURE OEB-15-2

MR. SHEPHERD: My next question is with respect to Staff 5, and I want to ask two questions about this.

First of all, with respect to response (i), it says:

> "Hydro Ottawa Limited prioritizes all investments which target reliability ..."

That sounds very clear and straightforward, except that you have lots of investments that target reliability that you are not doing this year, that you are going to do five years from now, right?

MR. BENNETT: Correct.

MR. SHEPHERD: So when it says you prioritize all investments, you don't actually do your reliability investments first. You consider them important, but you actually balance them over time to maintain a level of reliability, right?

MR. BENNETT: Yes, well, reliability is part of our prioritization process, so there's -- could be health and safety issues as well. But, yes, reliability is prioritized and then spread out as part of the process.

MR. SHEPHERD: Well, see, this sentence appears to say you put reliability first, that -- if an investment is for reliability, you do it right away.

But that's not what you mean, right?

MR. BENNETT: No, that's not what I mean.

MR. SHEPHERD: And the second part of my question on this is in table OEB5-1, which gives annual reliability targets.

These are past years, so are these targets or actual?

MR. BENNETT: The years are actual. The target is a target that's taken off this corporate scorecard that's used at the executive level.

MR. SHEPHERD: And then the 2011 to 2014 -- so the annual reliability target is the same for all four years?

MR5. BENNETT: Yes, so there's -- in a sense, there's multiple reliability targets, depending on what you're looking at.

So if you are looking at the OEB scorecard, and there is a range for reliability targets on the OEB scorecard, internally, and referred to in some of our documentation, we have our ERM, our enterprise risk management target, which is intended to be a monthly target on how you're doing on reliability and do you need to make any adjustments, is there something happening in your system that you need to make an adjustment on.

The most aggressive target is the corporate target, which is, I would say, a challenge target that is put to us to try to drive our reliability to those levels.

MR. SHEPHERD: And in the last four years, you've never made that target, right?

MR. BENNETT: No, not -- no, we have not.

MR. SHEPHERD: And I didn't see 2015 to 2020 here. Do you not have targets for those years?

MR. BENNETT: They would be the same target.

MR. SHEPHERD: So same target?

MR. BENNETT: Yes.

MR. SHEPHERD: Now, my experience with large companies is if you are not meeting the target ever, that normally, even though you might meet a stretch target there knowing you're not going to meet it, you also have an internal target which is how do far do we need to get towards that this year. Do you understand what I'm saying?

MR. BENNETT: Yes.

MR. SHEPHERD: Do you have those?

MR. BENNETT: Not in that format, in the sense that we have -- as I say, we have these enterprise risk management targets which focus our attention, and we have a monthly report that we do that focuses the attention of the CEO and the chairman of the board on reliability, and we have a reliability council that we use to say, okay, we need to address specific instances to try to drive reliability down.

And in those targets would be, for example, a neighbourhood that has poor reliability, or a circuit that has poor reliability, or a station that has poor reliability, to try to drive those into our range, so to speak.

Overall, the objective is to drive it down eventually to these numbers.

MR. SHEPHERD: I'll give you an example. Your target for three-year average SAIDI 1.0, but your actual in 2014 is 1.66.

I would assume -- and tell me whether this is right -- that internally somebody has said to the operations people, look, you have to get to at least 1.4 this year -- in 2016, let's say. You might not get to 1.0; we understand that. But you've got to get to 1.4. That is what we're really expecting of you this year. Do you have things like that?

MR. BENNETT: No.

MR. SHEPHERD: Don't you then have targets that everybody knows you are not going to meet?

MR. BENNETT: Well, again, it depends on the intent of the target, and what you're trying to do with the target.

So from our point of view, as I say, we have areas of town that are much better than this reliability, and we have areas of town that are worse than this reliability.

So the objective is to get all the reliability into a rational range, if you like, or reasonable range. Now, if you take our 2011/2012, were poor years for reliability. You see some improvement in '14.

As well, if you take a look at the actual information, for example, you extract loss of supply, or major event days, we start to get much closer to the target numbers.

MR. GARNER: Mr. Shepherd, do you mind if I ask a question on this topic?

MR. SHEPHERD: Go ahead.

QUESTIONS BY MR. GARNER:

MR. GARNER: Thank you.

I'm wondering if you -- two things. One is, you discussed this ERM reliability reporting. Can you refresh my memory? Is there evidence in this application on that ERM system?

MR. BENNETT: I'm not sure if there is actual -- the ERM system is a report card, basically, and which reliability is just a small part of, that they use in dealing at the executive and with the board for identifying if there is any issues that the board needs to be conscious of.

And we use the ERM tolerance level, if you like, for reliability as part of our reporting -- internal reporting in the assets group.

MR. GARNER: Thank you.

I'm wondering if you could undertake to do two things. We are very interested in this reporting and how reliability is reported on. Could you undertake to provide an ERM report and a monthly report that you think is indicative of what these reports look like. So I am not looking for all the reports for a year, but just one of each of those, so that we can understand what these look like and what the executive looks at in the sense of reliability.

MR. BENNETT: Yes, absolutely. Oh, sorry. My colleague is just pointing out that I think in one of the interrogatories we did attach the monthly report, an example of the monthly report.

MR. GARNER: Oh, is that right?

MR. BENNETT: We'll look for that --

MR. GARNER: And if you can just give me the reference. I must have --

MR. BENNETT: -- and point to it, and I don't believe that there is a sample in the ERM report, but if not we will undertake to provide that.

MR. GARNER: Thank you.

MS. HELT: So then the undertaking is to provide a sample of both the enterprise risk management report and a monthly report with respect to reliability reporting, in the event that both of those reports are not already provided in answers to interrogatories; and if they are provided in answers to interrogatories, to provide the interrogatory number.

MR. GARNER: Thank you, Ms. Helt.

MR. BENNETT: That's 2.11, was it?

MS. HELT: Oh. Yes, I'm sorry, JTC2.11.

MR. BENNETT: Thank you.

UNDERTAKING NO. JTC2.11: TO PROVIDE A SAMPLE OF BOTH THE ENTERPRISE RISK MANAGEMENT REPORT AND A MONTHLY REPORT WITH RESPECT TO RELIABILITY REPORTING, IN THE EVENT THAT BOTH OF THOSE REPORTS ARE NOT ALREADY PROVIDED IN ANSWERS TO INTERROGATORIES; AND IF THEY ARE PROVIDED IN ANSWERS TO INTERROGATORIES, TO PROVIDE THE INTERROGATORY NUMBER.

CONTINUED QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: My next question, still on Staff No. 5, is on figures 1, 2, RF, NPCC, and MRO.

So can you provide a list of the Reliability First utilities to which you've been compared, the NPCC utilities to which you've been compared, and the Midwest Reliability Organization utilities to which you've been compared for each of those tables and provide the data underlying the tables -- the figures, please.

MS. JONES: We will undertake to do that for you.

MS. HELT: That will be Undertaking JTC2.12.

UNDERTAKING NO. JTC2.12: TO PROVIDE A LIST OF THE RELIABILITY FIRST UTILITIES, THE NPCC UTILITIES, AND THE MIDWEST RELIABILITY ORGANIZATION UTILITIES TO

WHICH THE COMPANY HAS BEEN COMPARED FOR EACH OF THOSE TABLES AND PROVIDE THE DATA UNDERLYING THE FIGURES.

MR. SHEPHERD: Am I right in understanding -- I'm looking -- you don't need to refer to the question, but my question arises out of it. It is Staff No. 6.

Am I right in understanding that, generally speaking, at least for Hydro Ottawa, SAIDI is really solved mostly by OM&A actions? It is mostly by ensuring that -- because SAIDI is about response and about repairing things, about making sure that outages don't last very long; right? And that SAIFI is more about capital spending, about making sure that your system is hardened and about making sure your equipment works properly, et cetera, and so it tends to be a more capital-intensive reliability issue; am I right in that?

MR. BENNETT: I would say that is historically a correct illustration of it, but more and more, of course, we are trying to deal with duration with technology, get technology out there so we can respond quickly, re-energize at least portions of the customers, identify where the fault is quickly, and get crews to those locations more quickly.

MR. SHEPHERD: Now, is part of your strategy for SAIDI a change in -- and I don't mean like a major change, but sort of more minor changes in the configuration of your system so that you have more redundancy and you are able to deliver to a customer more than one way?

MR. BENNETT: Yes, that's correct.

MR. SHEPHERD: And do you have a plan for that, or is that built into your asset management plan?

MR. BENNETT: It is built into the asset management plan, yes.

MR. SHEPHERD: Okay. And is that -- I assume that is integrated with your smart grid and other sort of greening Ontario initiatives, as you change your system to be less radial and more responsive to different loads and sources of regeneration; is that right?

MR. BENNETT: Yes.

MR. SHEPHERD: Okay. You said -- last question -- or on Staff 6 -- you said on page 8 of that:

> "There have not been any marginal costs established in achieving reductions in SAIDI or SAIFI."

I had understood that part of what you are doing is trying to get your SAIDI and SAIFI down to target levels, and that you were spending more to do that; is that not right?

MR. BENNETT: Spending more -- we're spending to do that, yes.

MR. SHEPHERD: And are those costs not marginal relative to what you've done in the past?

MR. BENNETT: Perhaps we didn't read the question correctly. I'm not sure. "Has there been any marginal cost established in achieving reductions?"

And I think we thought that meant is, have we assigned a cost, if you like, to reducing SAIDI or to reducing

SAIFI, a cost; i.e., to our customers and that sort of thing.

MR. SHEPHERD: Oh, yeah. I'm quite sure that's not what they meant. I think this is more about, you know, last year you spent, what, 350 percent of -- or this year, no, last year, 350 percent of depreciation on new capital, and a chunk of that is to improve your SAIDI and SAIFI; right?

MR. BENNETT: Yes.

MR. SHEPHERD: So that's marginal; right?

MR. BENNETT: Okay, I'm not sure. If that's what they meant, that's not what we were replying to.

MR. SHEPHERD: All right. So I wonder if you could take a look at this and see if you can expand on this answer in (viii) of this question, Staff No. 6.

MR. BENNETT: Is it possible to get a clarification on what the Board meant with the question, the Board Staff meant with the question?

MR. CLARK: We were just looking at this from a purely economic perspective; that is, for every change -- unit change in SAIDI, what would be the unit cost. It was a purely theoretical question.

And I suppose, if you look at your historical data, you might be able to extract that kind of information looking at how you historically performed and the changes in it relative to the change in your capital. So if you can derive that, that's the number we would like to have.

The whole issue here is Staff think you have lofty goals, the 1.0 and the 0.8, and is there some sort of reasonable point to land on. Is there a number that you are going to come in asymptotic to, that you throw more money at it, and you are just not going to get the numbers you want back in SAIDI?

MR. BENNETT: We can it take a look at that and generate some numbers, give it our best shot and see where we come to.

MS. HELT: Mr. Shepherd, it would be helpful for the record, then, if we can set out exactly what the undertaking is that you are asking for.

MR. SHEPHERD: The undertaking is, in light of the explanation as to the intent of 6(viii), can Hydro Ottawa undertake to provide a fuller answer to that question.

And I think their answer is that yes, they can.

MS. HELT: Thank you. That will be JTC2.13.

UNDERTAKING NO. JTC2.13: IN LIGHT OF THE EXPLANATION AS TO THE INTENT OF STAFF IR 6(VIII), TO PROVIDE A FULLER ANSWER TO THAT QUESTION

MR. SHEPHERD: Two subsections down from that, on line 12 of page 8 -- and this, I think, is what Mr. Clark was getting to -- have you done any analysis as to how much should you spend to reduce SAIDI and SAIFI before you are wasting your money.

You haven't done that analysis, right?

MR. BENNETT: No, I haven't done that specific analysis. As I say, the analysis that we do have an asset point of view is to maintain existing reliability.

There is some analysis, if you look at some of the graphs, about reducing the outages and improving reliability. But we haven't done the point of reflection, it you like, of where the crossover is between spend and return.

MR. SHEPHERD: I understand that -- you are an engineer, right?

MR. BENNETT: Yes.

MR. SHEPHERD: I understand that from an engineer's point of view, you probably don't actually have to do a spreadsheet to figure out whether you should spend this particular dollar on reliability. You know what you'll get it if you spend it, right?

MR. BENNETT: In some cases, for sure.

MR. SHEPHERD: In theory, always; but in practice, a lot. So you can use your judgment; you don't need to use a spreadsheet.

The concern is -- I think the concern of ratepayers certainly is that you can just keep spending and keep spending, and you'll always get better reliability. But at some point, it is too expensive for us.

So the question is: Have you assessed how much customers are willing to pay for the next unit of improved reliability?

MR. BENNETT: We have not done that.

MR. SHEPHERD: Awesome, thank you -- I mean not awesome, but thank you for the answer.

QUESTIONS BY MR. GARNER:

MR. GARNER: Mr. Shepherd, can I ask a question about this SAIDI/SAIFI thing? I want to just ask about SAIFI now, the frequency, and we had discussed yesterday about cost codes.

In your experience of your utility, the SAIFI metric, how much of that is -- and let's say excluding LOS, loss of supply and major event days, what percentage of that is controllable and what percentage of that is non-controllable? Do you do that analysis? I've seen other utilities make that analysis in SAIFI.

MR. BENNETT: We do the analysis in that format, yes.

MR. GARNER: And of your SAIFI figure, what is the controllable aspect of that in your analysis?

MR. BENNETT: I'd have to dig out the information to get a specific number, but the controllable -- you know, so is weather controllable? We talk about an ice storm in Toronto, and is that a controllable event. I would say no, it's not. But more and more, it is expected that you do something to control the impact of an event like that.

So things that formerly were considered perhaps beyond our control, we are expected to figure out a way to at least mitigate those instances.

MR. GARNER: Well, the figure that I think I've seen in your evidence -- and this is why I'm wondering -- a figure of 47 percent, or something in that order.

Perhaps what you could do is just confirm -- maybe not even by way of undertaking. If it's in the evidence and you have some time today, if you have the chance to just look at it.

I think I've seen that figure someplace in your evidence, about controllable and non-controllable aspects of SAIFI, and I understand your response. But there are certainly non-controllable aspects, like cars driving into poles are not something that you are ever going to solve particularly, that sort of thing.

So if you could just remind me what is your SAIFI figure in your analysis for controllable costs, or controllable SAIFI --

MR. BENNETT: We will.

CONTINUED QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: My next series of questions is on Staff-7. I'm starting on page 6 of that response and in sub (vii), you'll see a table 1 there.

Are the numbers in table 1, are they somewhere in the evidence, or are they new in this document?

MS. COLLIER: Table 1 is provided as a response to the IR; it is not in the evidence, in the original application.

MR. SHEPHERD: So, these -- the numbers for compensation, for example, these are cost drivers, right? These are increases in compensation. Is that discussed somewhere in the application?

MS. COLLIER: No, it is discussed on page 7 of the IR response, though.

MR. SHEPHERD: Okay. And then the productivity, where did that number come from?

MS. COLLIER: So the general approach that we took in the IR custom application for OM&A for '17 to '20 was to do an envelope-based approach using our formulaic -- our formula.

So when we put the numbers together as you see it in table 1, and we look at all the key cost drivers, we come up with an OM&A that -- that amount that is greater than the envelope that's proposed through the formula.

So the delta of those two figures is the inherent productivity that we have to achieve out to 2020, by a number of means.

MR. SHEPHERD: When it says productivity via formula, what you're saying is that the formula gives us our budget?

MS. COLLIER: Which would be the last line in the table, yes.

MR. SHEPHERD: Exactly, and we can calculate what we need to spend and the difference we have to find in productivity; is that right?

MS. COLLIER: That's correct.

MR. SHEPHERD: So it is very similar to the capital thing we were talking about.

MS. COLLIER: It is a similar concept, yes.

MR. SHEPHERD: All right. Can you show us the calculations that got you the compensation numbers? They're not in Staff question 22 or 23, are they?

MS. COLLIER: No, the compensation -- I mean, obviously there is some more detail behind table 1 to calculate it. These are all very high-level calculations, though.

So compensation, we made some high-level estimates as to what we think the next round of collective bargaining will achieve, in terms of overall increases, and factored in what we think will increase in the way of benefits, to come up with a comp number.

It's no different than how we've done our compensation budget for 2016, just at a higher level.

MR. SHEPHERD: I'm going to ask you then -- for the compensation line only; the rest of them are fine.

But for the compensation line, will you provide us with the full calculations of those numbers, please?

MS. COLLIER: I'm not sure we want to disclose publicly what our next -- what we've forecasted to be our next round of collective bargaining increase.

MR. SHEPHERD: If you have to file it with some parts in confidence, I'm sure that we understand, but --

MS. COLLIER: We can undertake to do that, then.

MR. SHEPHERD: Sure. Thanks.

MS. HELT: So Undertaking JTC2.14 is to provide the calculations for the compensation numbers reflected in table 1, page 6 of 8, response to OEB Staff 7.

UNDERTAKING NO. JTC2.14: TO PROVIDE THE CALCULATIONS FOR THE COMPENSATION NUMBERS REFLECTED IN TABLE 1, PAGE 6 OF 8, RESPONSE TO OEB STAFF 7.

MR. SHEPHERD: Now, next I'm going to the attachment here, which is the updated PSE report. I just have a couple of questions on that.

Am I right that on page 10 the list of U.S. utilities is the same as in the Toronto Hydro case?

MS. JONES: We'll undertake to confirm that for you, Mr. Shepherd.

MR. SHEPHERD: Thank you.

MS. HELT: JTC2.15.

UNDERTAKING NO. JTC2.15: TO CONFIRM WHETHER THE LIST OF U.S. UTILITIES IS THE SAME AS IN THE TORONTO HYDRO CASE.

MR. SHEPHERD: The next is on page 25 of that document. There is a table, and I wonder if you could provide the calculations behind that table. I think it is an output of Mr. Fenrick's model, but if you just want to file it in its original form, you don't need to make it easier to understand. We'll figure it out, but if you could just provide that, that would be great.

MS. JONES: We'll do that.

MS. HELT: So Undertaking JTC2.16, to provide the numbers that support the table found at page 25 at the PSE report.

UNDERTAKING NO. JTC2.16: TO PROVIDE THE NUMBERS THAT SUPPORT THE TABLE FOUND AT PAGE 25 AT THE PSE REPORT. ALSO, TO PROVIDE THE NUMBERS SUPPORTING THE TABLE 7.2 ON PAGE 38 OF THE PSE REPORT.

MR. SHEPHERD: I'm going to ask for the same thing, and you can include it in the same interrogatory if you like, for table 7.2 at page 38. This is the same output, but with the extreme temperature variable.

MS. JONES: We'll do that.

MR. SHEPHERD: Thank you.
MS. HELT: So then that will be part (b) to JTC2.16, to provide the numbers supporting the Table 7.2 on page 38 of the PSE report.
MR. SHEPHERD: That's still part of 2.16? Yes?
MS. HELT: Yes.
MR. SHEPHERD: Thank you. Then my next question is -- no, this is in (b). Is it? Hang on.
I have a number of questions on CCC No. 2. I'm starting with attachment A. Sorry, this is CCC No. 3, I lied, attachment A.
And you reported to your board on page 7 that 4th generation IRM is "designed for utilities which have consistent levels of capital needs at very similar levels to the company's depreciation expense".
So I take it what you're saying is if your capital needs are more than depreciation, then 4th generation IRM is not for you. And I'm asking, what's the basis for that statement?
MS. COLLIER: I mean, that statement is a bit of a generalization, I would say, but ultimately what is meant by that, we feel the multiplier between depreciation and our capital spend is high enough that a 4th generation IRM application is not appropriate.
MR. SHEPHERD: So this isn't intended to be a statement of board policy?
MS. COLLIER: No.
MR. SHEPHERD: Okay, thanks. On the next page, page 8

of that document -- this document is the first time that you made a presentation to your board on this application; right? Is your August 28th presentation. This is the first one?

MS. JONES: I believe that's correct.

MS. COLLIER: I believe it is.

MR. SHEPHERD: So you said on page 8 that your final determination of the type of application "will be based on final budgets for 2016 to 2020", and "rate impacts on customers for 2016 to 2020".

So can you provide us with the final budgets for 2016 and 2020 and the rate impacts for 2016 to 2020 that were -- that were -- ones that were finalized and on which you made this determination?

MS. COLLIER: So this was obviously our first custom IR application, so as we started the process, the design of the application came together, you know, in the months leading up to that, so initially that was the plan. We were going to do a full five-year cost of service for both capital and OM&A. However, kind of midstream in the plan we decided to take the formulaic approach for OM&A for '17 to '20, so we did not -- we did not do detailed budgets for '17 to '20 OM&A.

What you have in the table 1 that we just looked at in the question is what we've prepared.

MR. SHEPHERD: Okay, so having told your board you were going to a budget, and then develop your application accordingly, didn't they at some point when you said, Here's what we want to apply for, say, Show us a budget that shows you can live within that?

MS. COLLIER: Again, that would go back to that table 1 we were just looking at. They know there's a stretch in that, you know, gap between those two figures, but productivity is, you know, is a key buzzword at our board as well. They are very much interested in us doing more for less, so they were happy with that -- with that stretch that's in there.

MR. SHEPHERD: Well, but didn't they -- see, you never showed them a budget for the five years; right?

MS. COLLIER: Not for OM&A.

MR. SHEPHERD: So then how could they assess whether you had a stretch or not?

MS. COLLIER: I mean, they know our historical OM&A annual growth rate is around 5.5. They know there is a stretch in there; right? They see these figures every year, on an annual basis.

MR. SHEPHERD: All right, on page 9 of this document you refer to the first calculation of high-level bill impacts at the end of June 2014.

Is that in the evidence somewhere, what your first calculation was of high-level bill impacts?

MS. COLLIER: It's not in the evidence.

MR. SHEPHERD: You provided it to your board, right? You told your board what your first level calculation of high-level bill impacts was.

MS. COLLIER: Unfortunately our previous director of regulatory affairs did all the board meetings, so we can undertake to find whether that was a verbal update or...

MR. SHEPHERD: Well, if you could just show us the calculation, that would be good.

MS. COLLIER: Okay.

MS. HELT: So Undertaking JTC2.17, Hydro Ottawa to provide the calculation -- first calculation of high-level bill impacts, end of June 2014, with the proviso that they will go to their former director and determine whether or not it was a verbal presentation to the board with respect to what that calculation was, or if there is some documentation to that effect.

MR. CASS: Maureen, sorry, two clarifications. I'm not sure they even know the calculation exists. So I think they will be checking to see if exists.

Second, it is not possible to go to the former director. He's passed away, so it's not possible. But they can see what they can do.

MS. HELT: Yes, all right. My apologies.

MR. SHEPHERD: The calculations were done, right? You said they were done?

MS. COLLIER: I believe they're done, yes.

MR. SHEPHERD: I just need to see them.

MS. COLLIER: All right.

MS. HELT: That is undertaking JTC2.17.

UNDERTAKING NO. JTC2.17: TO PROVIDE THE FIRST CALCULATION OF HIGH-LEVEL BILL IMPACTS, END OF JUNE 2014

MR. SHEPHERD: My next question on that is on page 15, and what you said is that you were going to be proposing that -- and it may be that these are the rate impacts that were the June 2014 ones. And if they are, that's fine; you can just tell us that.

You were proposing a 12 to 15 percent rate increase, but you are saying to your board, but most of that -- all but five percent of that is required to cover capital expenditures already made, right, plus other cost increases. Do you see that?

So can you break that down? In that estimate, how much was the capital expenditures and how much was the other cost increases?

MS. COLLIER: So, yes, we'll undertake to do that.

MR. SHEPHERD: Excellent.

MS. HELT: That will be undertaking JTC2.18.

UNDERTAKING NO. JTC2.18: WITH REFERENCE TO PAGE 15, TO BREAK DOWN CAPITAL EXPENDITURES ALREADY MADE AND OTHER COST INCREASES

MR. SHEPHERD: Then on the next page, page 16, you report the Toronto Hydro, Horizon, and Hydro One applications.

The Horizon numbers here are what they applied for, is that right?

MS. COLLIER: Again, you know, not having been -- no one on this panel, you know, put this together, so we would have to verify that.

MR. SHEPHERD: Well, what I actually want to know --

it is what they applied for.

MS. COLLIER: Okay, thank you.

MR. SHEPHERD: What I actually want to know is did you ever report to the board on what Horizon actually got?

MS. COLLIER: I'm not sure if in a later board meeting we did or we didn't.

MR. SHEPHERD: Okay. So can you undertake to see if you can find out, please?

MS. COLLIER: Again, I mean, the board meetings are minuted in such a way that it's action items and not the entire transcript like we have here today. So we'll attempt to do that.

MR. SHEPHERD: Just ask the chairman of the board, or the head of the finance committee whether they ever heard --

MS. COLLIER: And hope his memory is good.

MR. SHEPHERD: That's fine. You can only do what you can do.

MS. COLLIER: Thank you.

MS. HELT: That will be undertaking JTC2.19.

UNDERTAKING NO. JTC2.19: TO CONFIRM WHETHER BOARD OF DIRECTORS WERE ADVISED WHAT HORIZON ACTUALLY GOT

MR. SHEPHERD: I deny, by the way, any desire to beat yesterday's record. I deny that entirely.

My next question is on page 18. You'll see you have a bullet here on customer/stakeholder input, and I understand most of it except for city councillor input.

Can you provide us with some information on that?

What does that entail? What input did you get? Was there a formal process, an informal process?

I understand that most utilities periodically have phone calls from random city councillors saying what you are doing to my constituents. But if there's something more than that, can you tell us what it was?

MR. BENNETT: Yes, we can. I'd have to look to see what it is.

I can tell you that from my side of the house, we have a process where we communicate with the councillors or any work that goes on in their ward. So there is an ongoing process where they get a letter telling them about any work that takes place, and then we have it on the website as well.

They also have some of the numbers on speed-dial for when their constituents ask about what's going on in their area.

But we will find out specifically what was intended here.

MS. COLLIER: What specifically is your question? I'm not sure if it's clear.

MR. SHEPHERD: I'm just asking what was that input, and was there a process for getting input from the city councillors.

MS. COLLIER: Okay.

MR. SHEPHERD: Just as an aside, I assume you get input you from the city manager of Ottawa, because they are your big -- they are your shareholder, right? So presumably they have they have something to say about what your plans are, and how much you want to --

MS. COLLIER: For sure. We very city councillors that sit on our board, so I suspect that that's what it means. They're involved in that process, so --

MR. SHEPHERD: If it's just the board members, I don't need any details. But some utilities have a more -- a more fulsome process with their city council.

MS. COLLIER: Okay, we will confirm whether it is more fulsome or not.

MS. HELT: So undertaking JTC2.20 is with respect to page 17, and this is the response to CCC No. 3, and it is with respect to what was the nature and the type of city councillor input and what, if any, process is there for obtaining city councillor input.

UNDERTAKING NO. JTC2.20: WITH RESPECT TO CCC NO. 3, PAGE 16, TO ADVISE THE NATURE AND THE TYPE OF CITY COUNCILLOR INPUT AND WHAT, IF ANY, PROCESS IS THERE FOR OBTAINING CITY COUNCILLOR INPUT

MR. SHEPHERD: My next question is on CCC question 5, attachment A, and this is your business plan and budget guidelines. Do you see that?

I'm looking at page 11, and I have only one question on this. It says that:

> "Spending on non-compensation OM&A will be adjusted for an inflationary factor not to exceed 2.13 percent.”

My understanding is that you ended up with a lower percentage increase, in effect. You didn't end up with 2.13 percent on everything, right? It says not to exceed 2.13 percent, and I assume some things were lower than that.

MS. COLLIER: That's a fair statement.

MR. SHEPHERD: Do we know what the net was, what the net increase was? Has that ever been calculated?

MS. COLLIER: The 2015 budget is in the application, so I'm not sure I understand your question.

MR. SHEPHERD: Well, you said to your board of directors, we're going to cap our spending on non-compensation OM&A at a 2.13 percent increase, and you just said it was actually less than that.

MS. COLLIER: Some items were less. As you can see in the top part of that slide, IT maintenance, vegetation management, underground locates, and call centre contract are above the inflationary factor.

MR. SHEPHERD: Are above? Oh. So did you ever actually calculate what your increase in non-compensation OM&A was for 2015 budgeted?

I'm not asking you to do the math.

MS. COLLIER: No, no, I --

MR. SHEPHERD: I'm asking you whether you ever got to the number.

MS. COLLIER: I understand that. In the attachment to one of the other questions, our final budget plan was attached. Just -- which question was that?

MR. SHEPHERD: I'm giving you an opportunity to give -- I mean, we can calculate it, if that's the way to go. But if you actually have it, that would be great.

MS. COLLIER: Just give me two seconds? I want to see if it's in the other attachment.

So if you flip to your question 13, actually, Mr. Shepherd, and if you go to slide 21, so that the document that you were previously referring to that you were drawing your question from is a preliminary document that we provide to the board in the early part of the budgeting process to lay out really the guidelines to each of the division chiefs as to the -- really the high-level guidelines as they are for the budget.

The attachment to SEC 13 is the final budget that they approve for 2015, so on slide 21 -- and maybe it doesn't quite answer your question, but you can see that net expenses including comp increased 3.3 percent. So if...

MR. SHEPHERD: Including comp?

MS. COLLIER: Yes.

MR. SHEPHERD: All right. I can't actually find that here in my materials.

MS. COLLIER: Daphne, can you pull that up on the screen. SEC 13, SEC 13, the attachment. It's attachment SEC question 13(a).

MR. SHEPHERD: I don't actually have it here. I don't know where it is.

MS. COLLIER: Okay, so if that didn't get filed, that's -- we will definitely undertake to file that.

MR. SHEPHERD: Did it not get filed?

MS. COLLIER: It's in my binder. I think it has, but --

MS. HELT: Maybe you can check at the lunch -- or at the morning break with respect to that.

MS. COLLIER: We will.

MR. SHEPHERD: That would be great.

MS. HELT: Mr. Shepherd, just speaking of morning break, how much longer do you think you will be with your questions with respect to this topic?

MR. SHEPHERD: Twenty minutes.

MS. HELT: Twenty minutes? Well, why don't we push on and finish, if everyone's all right with that.

MR. SHEPHERD: I would actually prefer to take a break, if I could.

MS. HELT: Oh, you prefer to take a break? All right. So let's break until 11:15 then. Thank you.

--- Recess taken at 11:00 a.m.

--- On resuming at 11:20 a.m.

MS. HELT: Welcome back, everyone. We may as well get started. Mr. Cass, do you have some comment?

PRELIMINARY MATTERS:

MR. CASS: Yes, two things before we resume.

First, the document that Angela Collier was referring to just before the break, we've not been able to find it in the record.

We can give an undertaking to provide that document, and I know we'll want to give that undertaking a Number.

But just before I forget, the second thing is that

Bill Bennett can also address Mark Garner's question now about controllable percentage around SAIFI I think it was. I just didn't want to forget that.

MS. HELT: Sure. First, let's deal with the undertaking. That will be JTC2.21, and I believe it was an attachment to SEC No. 13, and was referred to as slide 21? Is that correct?

UNDERTAKING NO. JTC2.21: TO PROVIDE THE ATTACHMENT REFERRED TO IN SEC NO. 13

MR. SHEPHERD: It is actually the whole attachment, I think.

MS. HELT: The whole attachment then. So to provide a copy of the attachment that was provided in response to SEC-13.

This will be undertaking JTC2.21.

MR. SHEPHERD: I think the attachment was actually not provided in response to SEC 13.

It was referred to in it, but then it wasn't actually filed. Is that correct?

MS. COLLIER: That is correct. That was an oversight, and our apologies. But we will file it with this undertaking.

MS. HELT: Thank you. If we could now move to the second point raised by Mr. Cass, with respect to addressing Mr. Garner's question?

MR. BENNETT: Yes, I believe it was in response to SIA No. 15, and we identified HOL's annual historical safety by primary cause code as available in the exhibit.

We consider scheduled outage, defective equipment, human element caused outages to be controllable re SAIFI.

So when you look at the charts that are associated with that, that would say 50 percent are controllable, 50 percent are uncontrollable.

With respect to the reliability scorecard, we provided a copy in response to SIA question 16.

This is a copy of the scorecard that we use. We post it on what we call our DAP, which is our internal web portal for all of the ops group. They use that information to create what we call the president's reliability report, that the president CEO looks at monthly with our chairman of the board.

And if you want a copy of that, it's the same thing, just with more information about what the numbers mean and the outages. We could undertake to do that.

And the ERM report, we did not file that in the application. But we can provide a sample of an ERM, a monthly ERM report.

MR. GARNER: Thank you. And if you could, as part of that undertaking, file the actual president's report, just so we can get an illustration of what it looks like, that would be helpful.

MR. BENNETT: Yes, we can do that. Would the preference be to do like a year-end 2014, or to do the latest 2015 version, or --

MR. GARNER: Well, I'd leave that to you. What we're trying to just understand is what's the best snapshot of what the utility's management is using to assess its reliability progress.

So your judgment is fine with me as to what's the best illustration of that.

MS. HELT: If I could clarify, Mr. Garner and from Hydro Ottawa?

JTC2.11 was to provide a copy of the ERM report and monthly report re reliability. Is this an additional -- you're asking for the president's report?

MR. GARNER: I think -- and subject to Mr. Bennett correcting me, I think what we've agreed to is the ERM report, and then the president's report as he judges is the best illustration of what the executive uses to --

MS. HELT: Determine reliability?

MR. GARNER: Determine reliability, yes.

MS. HELT: So can we make this part of JTC2.11, then?

MR. BENNETT: Yes, we can.

MR. GARNER: Thank you.

UNDERTAKING NO. JTC2.11 (ADDITIONAL): TO PROVIDE A COPY OF THE ERM REPORT AND PRESIDENT'S REPORT AS THE BEST ILLUSTRATION OF WHAT THE EXECUTIVE USES TO DETERMINE RELIABILITY

MS. HELT: Go ahead, Mr. Shepherd.

CONTINUED QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: The break was a good idea, because I think I only have three questions left. I had like twelve, and I decided to cut them out.

My first one is on CCC-8. On the second page, you have a breakdown of OM&A by category. If I understand this correctly, you are saying that only 11 percent of your OM&A is something that you can change; the other 89 percent is basically -- you can't do anything about it. Is that right?

MS. COLLIER: I wouldn't characterize it quite that way. The definitions, the chart that you are referring to in CCC-8, the definitions are on the previous page, so page 1 of the response.

So, for example, controllable OM&A -- you know, obviously we do have some control over. And comp, we do have control over.

MR. SHEPHERD: My understanding of controllable O&M is that all you can do is change the timing of it, but you can't change the amount; is that right?

MS. COLLIER: No. I mean, if you look at something like fuel, you know, we could have more efficient driving routes, we could -- it is not just about timing and cost. There is some volume that we could certainly have an element of management control over.

MR. SHEPHERD: Then you have compensation, and you have two ways of controlling that. One is, of course, through your negotiations with the union or other employees. And the second is with your staffing model, how many people you have, right?

MS. COLLIER: Exactly.

MR. SHEPHERD: But generally speaking, once you've got your union contract in place for multiple years, you are sort of stuck with that part of it, right?

MS. COLLIER: That's correct.

MR. SHEPHERD: Even though you have a good relationship with the union, the union isn't going to say, oh, no, we don't need that 2.75 percent this year, right?

MS. COLLIER: No, I don't think they've ever done that.

MR. SHEPHERD: You can talk to them about it, but –

MS. COLLIER: Well, we'll bring it up.

MR. SHEPHERD: Yes, you'll bring it up. I was just surprised that there was such a small component that was really -- maybe what I was surprised with was this non-discretionary component of 41 percent. That seems like a big number.

So here's what I wonder if you can you do. Can you take this figure 1, and can you take your detailed 2016 OM&A budget -- not the five-line one, but the twenty-five-line one, or whatever it is. Do you know the one I'm talking about?

And then can you simply identify which category those items are in and, if some of them are in both, what the breakdown is? Can you do that?

I understand you're estimating, and it is not precise. But can you do that?

MS. COLLIER: We can do that.

MR. SHEPHERD: Awesome. Thank you.

MS. HELT: That will be undertaking JTC2.22.

UNDERTAKING NO. 2.22: WITH REFERENCE TO CCC NO. 8

FIGURE 1, USING THE 25-LINE 2016 BUDGET, IDENTIFY WHICH CATEGORY THOSE ITEMS ARE IN AND, IF SOME OF THEM ARE IN BOTH, WHAT THE BREAKDOWN IS

MR. SHEPHERD: Don't want to miss any in my quest for glory here.

The second question I have is on CCC No. 12. I think you may have answered this already, but I want to make sure that I got the answer right.

If I understand your previous answers and this answer, you have ongoing customer engagement, and that informs what you do in your planning. But the Innovative research work didn't -- you made no -- it had no direct impact on your plan or your application, except to confirm what you already knew; is that right?

MR. BENNETT: Yes, that's correct.

MR. SHEPHERD: Okay. See how easy these are? Then my last couple of questions, or set of questions relate to CCC No. 14.

This is -- you were asked to talk about the costs associated with customer engagement for 2012 to 2020. You didn't include 2017 to 2020, I assume because -- or at least for OM&A, because you don't have a detailed budget for those years, right?

MS. COLLIER: That's exactly right.

MR. SHEPHERD: Okay, but what I was struck with is, you're saying the call centre -- this is all the call-centre costs; right?

MS. COLLIER: Yes.

MR. SHEPHERD: They're all customer engagement?
MS. COLLIER: No, I believe that's the entire call-centre cost.
MR. SHEPHERD: So you are considering them all part of your customer engagement cost? It seems like most of your call-centre costs are not really engaging your customers per se, but rather sort of, you know, dealing with the nuts and bolts of your business.
MS. COLLIER: Yeah, maybe it's not good terminology, but I believe that is our entire call-centre cost --
MR. SHEPHERD: And similarly with communications, that's your entire communications budget; right?
MS. COLLIER: I would have to check that one.
MR. SHEPHERD: Okay. Well, assuming that's the case, isn't it true that -- or am I right in understanding that some big part of your communications budget is not customer-directed. It's directed at government, it's directed at your shareholder, it's directed at the regulator, et cetera; isn't that right?
MS. COLLIER: To a certain degree, maybe, but the majority of our communications does have a very big customer element, even if it is directed at the shareholder, but I could -- I mean -- actually, I'll let you maybe ask your question before I...
MR. SHEPHERD: No, that was the question. Your answer is a fair one. I understand what you're saying. What I'm trying to get here is there's customer engagement in the RRFE context which is sort of, go out and ask your

customers what they want and then implement it in your planning. This table doesn't appear to be that; this appears to be everything to do with interacting with your customers; is that right?

MS. COLLIER: Yeah. We took a more -- about kind of our customer engagement group in totality, so we could undertake to provide a response to the question that more focuses just on the activities that you described.

MR. SHEPHERD: Okay, before I ask for that, is that a lot of work to do?

MS. COLLIER: I'm not sure. My accountants are probably listening now, and --

MR. SHEPHERD: They're saying, Yes, yes, it's too much work.

MS. COLLIER: So --

MR. SHEPHERD: All right. If it's not too much work, it would be useful information. I don't think it's material enough for you to assign somebody for a week to do it.

MS. COLLIER: Oh, I completely agree, I completely agree.

MR. SHEPHERD: So if your answer is it's too much work, I'm not going to object to that undertaking response, but if you can do it that would be useful.

MS. COLLIER: Okay.

MS. HELT: All right then. So that will be Undertaking JTC2.23.

UNDERTAKING NO. JTC2.23: WITH REFERENCE TO CCC NO.

14, TO PROVIDE A RESPONSE TO THE QUESTION THAT MORE FOCUSES JUST ON THE ACTIVITIES MR. SHEPHERD DESCRIBED.

MR. SHEPHERD: Similarly on the capital cost side, you've also included all of the capital costs, so for example, all of your customer care and billing costs are included in that, but you would agree that the vast majority of that's not actually customer engagement in the normal sense, right?

MS. COLLIER: That's right.

MR. SHEPHERD: Okay. And that is all my questions on No. 1. Thank you.

MS. HELT: Thank you very much, Mr. Shepherd. I believe that there are no other questions with respect to Exhibit 1 or Exhibit A. Mr. Aiken has asked his questions. Mr. Garner has indicated he has no further questions. Mr. Clark has no questions.

So on that basis then we will move to Exhibit B or 2, and we will start with the consultant for Board Staff, Mr. Heimlich, who is from Elenchus, with his questions for this topic.

EXHIBIT 2/EXHIBIT B

QUESTIONS BY MR. HEIMLICH

MR. HEIMLICH: Thank you. The first would be shown on question No. 16, and it would be shown on page 13. Yes, but it is numbered according to the Ottawa Hydro numbers. It's OEB.

MS. HELT: It is OEB Staff 16.

MR. CASS: Yes.

MR. HEIMLICH: Now, it has -- it deals with the part (v), and the answer -- I'm going to zero in on the answer. It says that:

"Health indices for the related asset groups are shown in sections 2.3.3.1 through 2.3.3.13 of the DSP."

We could not find these. What was similar or may have had the answers was 2.2.3.1 through to 2.2.3.13.

What we are looking for is the confirmation that these are actually the sections to look at.

MS. HELT: If I can just ask if we can have the screen on the answer. I think right now it is on the question (v), not the answer.

MR. BENNETT: Just for my clarification, so in line 6 you are talking about 2.3.3.1 through 2.3.3.13; is that correct?

MR. HEIMLICH: Correct.

MR. BENNETT: And what do you think it is, or what do you think it should be?

MR. HEIMLICH: 2.2.2.3.1 through 2.2.3.13.

MS. HELT: So rather than 2.3 it is 2.2.

MR. BENNETT: Okay, let me have a look.

Yes, that's correct.

MR. HEIMLICH: Thank you.

The next would be Staff No. 16. It would be part 14, and the question is shown on the page 6, and the answer is shown on the page 17.

MR. BENNETT: The testing and inspection information?

MR. HEIMLICH: Part 14.

Now, the reply to this question does not seem to clarify the relationship between the end-of-life criteria and health indexes. Now, if I were to zero in on the concept of the end of life, that concept may include the criteria -- not the numbers, the criteria of functionality, economics, safety, design, reliability, risks, obsolescence. These would be the main areas I would consider part of end of life.

Now, for example, functionality I would qualify as an original design capabilities are not met, as intended. Obsolescence could be lack of technical skills and maintenance personnel to look after the technology. Design life could be based on manufacturer's recommendations.

But what I would like to ask, is this -- is this included in the health indexes or will it be included in the health indexes as part of the criteria?

MR. BENNETT: Is it included or will it be? Right now we have two projects underway with consultants, so one project is specifically about health indices of individual assets, so looking at the initial -- I would say we started in 2005, 2006 with condition assessment primarily as the health indices factor or age. We have been gathering information on -- that information on those aspects, of course, over time, and we have, as I say, two consultants. One is doing the health indices of the assets, looking at the failure mechanism of the assets, so looking at the asset individual information that we will put into our C-55 asset management program.

And we have another consultant working on the health indices matrices, if you like, which is more of a broad-scale scorecard of how we're doing with our program, if you like.

So for sure, the factors you've identified absolutely are going to be part of that process, part of that discussion. And the things that you've seen here that we've identified, the large assets, some or all of those aspects are part of the discussion.

So if you look at station transformer, station switchgear, poles in particular, and cable, we go into much greater detail.

When you look at other things -- transformers, that sort of thing -- it is basically a run to end of life. We are doing a forecast of where we think the failure rate is going to go, or where the life expectancy of those assets are. But we haven't formalized a replacement program, and we haven't gone to the level that you've described with those assets.

MR. HEIMLICH: Thank you. So could we assume that they will be included, in one form or the other, in the two consultants' work?

MR. BENNETT: That's the plan, yes.

MR. HEIMLICH: Thank you. I'd like to move to Staff question No. 17, part 1. It's shown -- the question is on page 2, and the answer is on page 14.

MR. BENNETT: Yes.

MR. HEIMLICH: This relates to the question No. 16, which we just talked about, and it actually is a continuation.

As you see it right now, could you explain the relationship among information elements in the health index subsection in the asset management planning report, and the data governance subsections in there, and what you perceive as the end of life criteria from our discussion a few seconds ago?

I realize that you are having work in progress and that you have hired the consultants to do it. Is there any way to explain it right now?

MR. BENNETT: Just to clarify, what is the -- what is it that you are looking for specifically?

MR. HEIMLICH: To describe the relationships among information elements in the health indices subsection in the asset management planning report. Each asset in your asset management planning report has a subsection, which describes the health indices as it is submitted right now.

What I'm asking is, okay, what's the relationship of those, as you have listed, with the data governance, which is also listed there, and the end of life criteria we just discussed.

It is not the numbers that I'm asking about; it is more of a conceptual relation. Like, for example, your prescription for data governance, does it incorporate planning for fleshing out the health indices? That's an example.

MR. BENNETT: I'm not sure that I'm perfectly clear on the information that you're looking for.

In general, as I described -- so the asset management plan, as I say, looks at -- so the asset management plan activity has been going on now since 2005. It was brought together into one report, if you like, a consolidated report in 2011, and we've been using that format since 2011.

That was done before we did the distribution system plan, so we followed the processes as the rate application -- put together the distribution system plan following the template, and we left the asset management plan as a separate document. Going forward, we would integrate those two activities.

As part of that as well, as I described, we have some planned programs where we spend a fair amount of time looking at the assets, and their condition, and the replacement programs. And we have others that are run-to-failure where we're tracking basically, and gathering data. And, as I said, the two consultants we have hired are going to help us put together better information on the individual assets, and better health indices which are more than age-related or condition-related, which are going to be multi-faceted, as you describe, for those assets, and then a more comprehensive reporting scheme, if you like, on how the assets are doing in what we call a health matrix for our assets.

That's -- I'm not sure if that answers the question or not but --

MR. HEIMLICH: Yes, it does. Thank you. I'd like to zero-in back on Staff question No. 16, part 12. The question can be found on page 5, and the answer on page 17.

Now, the question is regarding the Project Coach, and the question read exactly like this:

"Please confirm use of the Project Coach methodology in all phases of asset management."

Are you using the Project Coach methods all throughout?

MR. BENNETT: So Project Coach for us is an Internally-generated process, which is a PMP process, a project management process, which follows PMBOK.

So Project Coach really comes into play when you get to the project level, as opposed to the asset planning level. So for sure, once the pro -- the design group works very closely with the assets group in putting together the capital program, looking at designs, looking at estimates. And then once the program is approved, then Project Coach really comes into play.

We have trained over 300 of our people to follow the Project Coach process so that, you know, if Johnny gets hit by a bus, Frankie can step in and take over that project seamlessly, and everybody understands how the project flows.

So Project Coach is part and parcel of delivering the capital program. But it is not really part of doing the asset planning portion of the program.

MR. HEIMLICH: Thank you for your answer. Is it planned to be part of the asset management in the future, or does, it not? Or does it lend itself to be part of the asset management planning?

MR. BENNETT: In a sense, it does. So we have organized around areas, and what we've recognized is that, you know, you can't do planning in isolation.

We also recognize that we have sort of a hump. We have a bunch of old, experienced people who are going to leave, and a bunch of young people who are very sharp and capable, who are going to take over. We want to integrate those two groups.

So we've organized by area. The planning engineers have an area, the designers have an area, construction has an area, and they meet on an ongoing basis. They do the planning, in a sense, in a cooperative fashion.

The planning engineers are responsible for ultimately doing the planning. The planning engineers are trained in Project Coach, and understand how the Project Coach process works once it gets to design and construction.

So they have a role to play at the outset. But if makes sense to incorporate that into the Project Coach process, we would do that for sure.

MR. HEIMLICH: We're talking having asset manager -- or asset managers as part of the process, which may or may not happen in the end, right?

MR. BENNETT: Right.

MR. HEIMLICH: Your intention right now is that it might?

MR. BENNETT: They are part of the process in the sense of the initiation. There is -- I would say there's nothing in Project Coach at this point that describes their activity specifically, because Project Coach takes place once the project starts, so to speak.

MR. HEIMLICH: Thank you. I would like to move to Staff question 16, part 17. The question is on page 7, and the answer is on page 22.

MR. BENNETT: Yes.

MR. HEIMLICH: The question deals with -- at least it seems to deal with one of the consultants you have hired, and it describes six steps, what the actions would be or what the actions are, and they should be completed by the

Reading it, it seems like a very ambitious plan, and this is why the question is: Would you please confirm the anticipated completion, maybe a year of anticipated completion, of these six steps for all the major asset groups?

MR. BENNETT: Well, the plan is, yes, by the end of 2015 they are already working on it. Kinectrics was involved in setting up our first asset management plan. They are quite familiar with what we do and how we do it.

And as I say, we have a different group, Metsco, that is working on the actual individual asset health indices and failure curves and that sort of thing, so that's -- we believe this is going to be done by the end of the year.

MR. HEIMLICH: For all the major asset groups.

MR. BENNETT: For all our major asset groups, yes.
MR. HEIMLICH: Thank you.
The next question is a little bit different. I will put a little bit of a preamble to it.
It refers to Staff question No. 17, part 5, 6, 7, 8, 9, all the way up to 14, and instead of asking these individually I would rephrase it, and the aim of this rephrasing would be that you should be able to present us with a picture of what the health indices are so that it would be easy to understand both ways the concepts and the steps and the overall process, and also the role of the health indices in the overall process.
Now, that's the aim of the question. Of course, we understand that the health indices plays a very important part in determining the asset replacement plan.
Would you be prepared to select an asset or maybe two groups of assets for which you feel you have the most data and step by step explaining the following six areas:
Number one: What end-of-life criteria would you use to generate your health indices? For example, age, but there are a number of other health indices, of course, so we would be looking at more than one.
Number two: How would you develop or plan to develop the health indices? For example, selection of the parameters based on the end-of-life criteria, but representing their relative importance, for example, defining ranges of numerical values for the critical scores, combining criteria score of weighting factors.

Number three: How would you use the health indices for work prioritizations and for asset replacements?

Number four: Whether you plan to use this approach for all asset categories?

Number five: Whether the health-indices criteria would be applied consistently for each asset category?

And the number six is the last one: Are there any assets which Hydro Ottawa doesn't plan to apply this procedure to?

I know it's quite a large set of questions. I could submit it in writing. The aim is the same, no matter which the question is.

MR. BENNETT: So just in general, let me say, I guess, as I said, that we -- health indices for many of our assets, as you describe, is age. That's that we've used. Recognizing that's not sufficient going-forward, that's the aim of the project right now with the consultants.

In what you've described there I would say, for example, our pole replacement program may come the closest, that we test the poles, we actually test the poles for strength criteria, and we assess the condition of the pole based on the exterior and interior condition of the pole, and then we also do a consequence, depending on, you know, where the pole is and how many customers it serves and that sort of thing in assessing where we prioritize pole replacement. So we follow that kind of process for pole replacement.

Cable replacement, we do testing on cable replacement.

We extrapolate the information we get from our cable testing. It shows that we need to spend significant amount of money on cable replacement. We're trying to get through that with targeted replacement and with cable injection and biding our time a little bit on cable replacement.

The larger items like station transformers and station switchgear, we focus directly on those assets, so we do, I'll call it a more comprehensive inspection of the assets, and as you say, whether they can be serviced or not, whether they can be maintained or not, the condition of the oil in the transformers or whatever that is, we combine that information to create our health index for those activities. They are easier to manage from that point of view. They are large items and there's fewer of them, but they have a major impact, obviously, if they fail, so very important for us to stay on top of those things.

So if you have something specific that you'd like us to do, absolutely, if you could give that to me, we'll put together something for you. Now, I suspect it will be different next year when we have our consultants' information in place and we have input that into our C-55 process for prioritizing our projects.

MR. HEIMLICH: Excuse me for a second.

MS. HELT: I believe Mr. Heimlich would like, if you could provide us with a written response or an undertaking just with respect to his initial question, where he did say if you could select two groups of assets and explain those six various sub-categories or issues that he raised in his question, step by step, would that be possible?

MR. BENNETT: We can do that for what we're doing right now.

MS. HELT: Yes.

MR. BENNETT: Yes, and so if we look at the process in the information that we filed where we do a consequence table, that will be part of C-55 in the future version, so it will be for what we do presently, as opposed to what we will be doing.

MS. HELT: That's satisfactory, so we'll mark that as Undertaking JTC2.24.

MR. BENNETT: Thank you.

UNDERTAKING NO. JTC2.24: TO SELECT TWO GROUPS OF ASSETS AND EXPLAIN THOSE SIX VARIOUS SUB-CATEGORIES OR ISSUES THAT MR. HEIMLICH RAISED IN HIS QUESTION, STEP BY STEP.

MR. HEIMLICH: Thank you. That's all my questions I have.

MS. HELT: Thank you very much, Mr. Heimlich.

Mr. Aiken, would you like to proceed with any questions? Is Mr. Aiken there?

MR. AIKEN: I'm here, I'm just trying to get the microphone on.

MS. HELT: Hiding behind the pillar.

QUESTIONS BY MR. AIKEN:

MR. AIKEN: Okay. My first question is on the response to Energy Probe No. 12. And on the second page it shows table 1, summary of rate base. And I'm comparing the

2014 numbers here with the original table 1 that was in Exhibit B, tab 1, schedule 1. So it is the difference between the forecast and the actual for 2014.

Specifically I'm looking at the closing accumulated depreciation, which in the case of actuals is about two-and-a-half-million dollars or 7 per cent lower than the 2014 forecast.

Other than the reduction of about seven-and-a-half-million dollars in capital closed to rate base in 2014, what are the drivers of that decrease?

MS. HELT: Are we able to get a copy of that up on the screen? It is? Oh, not on my screen. All right. Thank you.

MS. BARRIE: Sorry, just to clarify, it's the difference between the 2014 actual and which other year?

MR. AIKEN: I'm talking about the difference of the 2014 actual, which you'll see on the screen is 33,000,361 as a closing accumulated depreciation 2014 actual. And the forecast for 2014 in your original evidence, the original table 1, was 35,919,000.

MS. COLLIER: So that's just a timing difference in projects and the timing of depreciation.

MR. AIKEN: Well, I phrase that -- you've got seven and a half million dollars less close to rate base on an actual basis than it did compared to forecast. So that accounts for maybe a two or three hundred thousand dollars reduction in depreciation, when you factor in the half-year rule.

So what is the other two-plus-million dollars associated with?

I can tell you where I'm going with this, and that is: Could this be related to the use of the in-service month for discrete assets?

MS. BARRIE: I would have to check.

MR. AIKEN: In checking, can you provide the actual depreciation expense in each of 2012 through 2014, for the aggregate of the assets where the in-month service methodology is used, and compare that to the depreciation if the half-year rule had been used for those discrete assets, and then do the same thing for your forecast for 2015 through 2020?

Because it appears that some of this two-million-dollar difference must be related to that.

MS. COLLIER: Can you just repeat your undertaking one more time, just so that I can make sure that we can do what you're asking?

MR. AIKEN: Sure. Provide the actual depreciation expense in each of the historical years 2012 through 2014 for the aggregate of the assets where the in-month service methodology was used.

Then calculate the depreciation if the half-year rule had been used on those assets, and then do the same thing for 2015 through 2020.

MS. COLLIER: We can provide that.

MR. AIKEN: Okay.

MS. HELT: That will be undertaking JTC2.25.

UNDERTAKING NO. JTC2.25: TO PROVIDE THE ACTUAL DEPRECIATION EXPENSE IN EACH OF THE HISTORICAL YEARS 2012 THROUGH 2014 FOR THE AGGREGATE OF THE ASSETS WHERE THE IN-MONTH SERVICE METHODOLOGY WAS USED; THEN CALCULATE THE DEPRECIATION IF THE HALF-YEAR RULE HAD BEEN USED ON THOSE ASSETS; AND THEN DO THE SAME THING FOR 2015 THROUGH 2020

MR. AIKEN: My next question is on the response to 2-Energy Probe-13.

In part (c), I had asked for the year to date actuals for 2014 and the forecast for the remainder of the year.

The response indicates that Q2 year to date actuals for 2015 are materially in line with the budget, with the exception of the areas noted in the response.

The response also goes on to indicate that the 2015 forecasts have not yet been approved by the audit committee and board of directors.

So my question is: Has the board of directors approved any of the capital expenditures for 2015 through 2020?

MS. COLLIER: Yes, they have approved all of them.

MR. AIKEN: Then can you provide the 2015 year to date actuals, and the remainder of the forecast?

MS. COLLIER: So the -- I probably don't understand your question. The board has approved all of the 2015 budgeted capital expenditures and '16 through '20 as part of this application.

It's just the year to date actuals, they have not seen in a Q2 forecast update, which is basically how are we tracking against budget this year. So that's the part that's not yet available.

MR. AIKEN: And do they approve that, the capital expenditures halfway through the year? They approve your new forecast?

MS. COLLIER: They do, yes.

MR. AIKEN: Okay. Am I correct that there is no change in your capital expenditures forecast for 2015 through 2020 as part of the update you filed?

MS. COLLIER: That's correct.

MR. AIKEN: Now, the amount close to rate base in 2015 has increased from 106.9 million in the original evidence to 110.5 in the June update; is that correct?

I'm looking at -- I was looking at the continuity schedules where you have both the original forecast and the updated.

MS. COLLIER: So the updates that was provided was to reflect the 2014 actual numbers.

MR. AIKEN: So the higher amount close to rate base in 2015 compared to the original forecast, that's because your actual capital expenditures in 2014 were higher than forecast. But the amount close to rate base was lower than forecast, and therefore that -- this is what I call a CWIP catch-up in 2015. Is that correct?

MS. COLLIER: Subject to check, that's correct.

MR. AIKEN: When you look at the continuity schedule for 2015 in your update, which I must say had very small numbers in them --

MS. COLLIER: I fully agree.

MR. AIKEN: The one major change you've made is in a reduction in the contributions in 2015. It's fallen from 25.4 million to 21.9 million. And it's probably not a coincidence, but this reduction in the contributions is exactly equal to the increase in the amount closed to rate base.

So can you explain to me why the contributions have fallen?

MS. COLLIER: I would have to take that as an undertaking.

MS. HELT: Mr. Aiken, would you like that as an undertaking?

MR. AIKEN: Yes, please.

MS. HELT: All right, JTC2.26.

UNDERTAKING NO. JTC2.26: WITH REFERENCE TO THE CONTINUITY SCHEDULE FOR 2015 IN THE UPDATE, TO EXPLAIN WHY THE CONTRIBUTIONS HAVE FALLEN

MR. AIKEN: My next question is on the response to Energy Probe 15. This is mainly for clarification, I guess.

The response to part (c) indicates -- if I can find part (c) -- yes, it's on page 3 of 4, and the response to part (c) indicates that Hydro Ottawa is not forecasting any payments to Hydro One Networks.

But table 3.4.11 in the original evidence, in Exhibit B, tab 1, schedule 2, shows a 4.75 million payment in 2016, and then a $5 million payment in each year following.

So can you explain whether payments are being made and included in rate base, or not?

MR. BENNETT: I don't have all the details, but the $5 million is a budgeted amount.

There's true-ups over five years on projects that -- for example, we got caught by surprise on our Hawthorn true-up. It is an estimated amount based on not knowing what might be coming at us from Hydro One.

MR. AIKEN: I guess my question is: Is that $5 million a year included in what's closed to rate base each year?

MS. COLLIER: Yes.

MR. AIKEN: Okay, then explain that fact with the fact that here you're not making any payments to Hydro One.

MS. COLLIER: I think this sentence is really intending to say obviously when we enter into a CCRA agreement with HONI, you're forecasting your future load using the best information that you have available.

So what we haven't factored into the 2016 to the 2020 budget is that our initial load forecast is going to be wrong.

So I think that's what we're trying to say in that sentence. We are not forecasting any future true-ups.

MR. AIKEN: Beyond what you're forecasting?

MS. COLLIER: The 5 million is more for -- and Mr. Bennett can correct me, if I'm wrong, but the 5 million is more for new CCCRA agreements that are anticipated to be signed.

MR. BENNETT: Again I'd have to get back to you on that.

MR. AIKEN: Let me proceed on, because I have more questions on this.

The response to part (d) indicates that the Hawthorn TS is expected to be put into service on the 2015, and the Overbrook TS to be put into service in 2016.

So if we go back to the updated continuity schedules you've provided, where do these TS stations that are being put into service in 2015 show up in those continuity schedules? Because I'm assuming that these would go into account 1815, transformer station equipment; is that correct? Or would they go someplace else?

MR. BENNETT: These are Hydro One stations.

MR. AIKEN: Yeah, but where in your accounts do they show up, the payments for them?

MS. COLLIER: I believe it's at the bottom, right, 1609?

MR. AIKEN: It's like that for all the years; is that correct? I know, we all need a magnifying glass.

I guess the problem I'm having is, if it is 1609, which is capital contributions paid, and it seems to be a logical place to put it, in 2016 the number is 4.9 million, which would be the -- correspond to the 5 million in table 3.4.11, and if you go back to 2015 it's 17.4 million, which would include the five million in that table plus, I'm assuming, the Hawthorne station, which then leads me to the question: Where in '16 is the Overbrook station that's supposed to go into service in 2016?

Maybe the easiest way to do this would be to -- if you could undertake to provide a mapping for 2015 and '16 of the payment to HONI, including the Hawthorne and Overbrook stations.

MS. COLLIER: We will undertake to do that.

MR. GARNER: Sorry, Mr. Aiken, do you mind if I just jump in? Because I had a very similar question and problem, and while you're doing this undertaking maybe we can solve them both at the same time.

We had asked in question 11 for you to tie up the numbers that were in table 3.4.11, which has the Hydro One payments, and tie them to the table in 3.4.12, and you didn't do that. You referred us back, actually, to the interrogatory that Mr. Aiken has just gone through with you.

I'm wondering if, in doing his undertaking, you could also do that so that I could understand how table 3.4.12 matches the Hydro One payments that you're showing in the table just above it, 3.4.11, and then maybe together with the response to Mr. Aiken that will solve both of our questions on this issue.

MS. COLLIER: We will do that.

MS. HELT: All right, so then Undertaking JTC2.27 would provide -- would be for Hydro Ottawa to provide a mapping for 2015 and 2016 of payments to HONI for those two substations, as well as to provide a -- I guess mapping of the payments set out in table 3.4.11, which is found at Exhibit B, tab 1, schedule 2, with table 3.4.12. Does that cover it all?

MR. GARNER: That's fine.

UNDERTAKING NO. JTC2.27: TO PROVIDE A MAPPING FOR 2015 AND 2016 OF PAYMENTS TO HONI FOR THOSE TWO SUBSTATIONS, AS WELL AS TO PROVIDE A MAPPING OF THE PAYMENTS SET OUT IN TABLE 3.4.11, WHICH IS FOUND AT EXHIBIT B, TAB 1, SCHEDULE 2, WITH TABLE 3.4.12.

MR. AIKEN: Then my next question is on the response to Energy Probe 16, part (c), and this those do with the deferral and variance account you are requesting, so I just want to confirm that the account would track the difference between the gross asset value removed from rate base and the accumulated depreciation for the assets, and that Hydro Ottawa would request recovery of these amounts in the future; is that correct?

MS. BARRIE: So the difference that would be recorded would be the difference in what we're forecasting and what actually occurred.

MR. AIKEN: Okay, so it is the variance between actual and the 750,000?

MS. BARRIE: Right.

MR. AIKEN: Okay, and are you asking for this account to apply for 2016 through 2020 or also to 2015?

MS. BARRIE: 2016 to 2020.

MR. AIKEN: So on the second page of the response, at line 2, that 2015 should be a 2016?

MS. BARRIE: Well, it's just simply saying that we forecasted it from 2015, so the 750 can also be seen in the forecast.

MR. AIKEN: Okay. Did Hydro Ottawa have an account similar to this to record the 6 million of actual disposals incurred in 2012 through '14?

MS. BARRIE: A variance account to record these?

MR. AIKEN: A variance or a deferral account.

MS. BARRIE: No.

MR. AIKEN: Next question is on Energy Probe 17. The response indicates that Hydro Ottawa does have fully allocated depreciation expense related to fleet, so I take it from the response in part (b) that in 2016 what you do is you add $900,000 to your capital expenditures as a transfer from depreciation, you add $500,000 to your OM&A, and then, instead of reducing your depreciation by 1.4 million, you reduce your OM&A by the 1.4 million; is that correct?

MS. COLLIER: That's correct.

MR. AIKEN: Could you please expand that table 1 to include actuals for 2012 through '14 and the forecast for 2015, that the split of the fully allocated depreciation expenses?

MS. COLLIER: Okay.

MS. HELT: That will be Undertaking JTC2.28.

UNDERTAKING NO. JTC2.28: TO EXPAND TABLE 1 TO INCLUDE ACTUALS FOR 2012 THROUGH '14 AND THE FORECAST FOR 2015, THE SPLIT OF THE FULLY ALLOCATED DEPRECIATION

EXPENSES.

MR. AIKEN: Then my last question on Exhibit 2 is on the response to CCC No. 32. There is a table listed there in the response. This goes back to the 2014 Hydro One payment. My question is simply: Are all the projects listed in the table currently in service?

MR. BENNETT: No, they're not currently -- not all currently in service. The Hinchey new switch gear line of project's happening right now, Lisgar transformation upgrade is happening right now, Orleans TS is being constructed right now.

MR. AIKEN: Okay. So as a follow-up, are the ones that are being done now, are they proposed to be in service by the end of this year?

MR. BENNETT: I would have to confirm for sure on that.

MR. AIKEN: Would you undertake to maybe just add two columns to this table showing, for those that are not currently in service, when the in-service date is. And the second column would be a yes or a no as to whether they're currently included in rate base.

MR. BENNETT: Yes, we can do that.

MS. HELT: Just to be clear then, that is the table that was provided in response to CCC-32?

MR. AIKEN: Yes. And those are my questions, thank you.

MS. HELT: Thank you, Mr. Aiken. Mr. Garner?

MR. GARNER: Thank you, I hope to brief.

MS. HELT: Oh, my apologies; that would be undertaking JTC2.29.

UNDERTAKING NO. JTC2.29: WITH RESPECT TO THE TABLE PROVIDED IN RESPONSE TO CCC-32, TO ADD TWO COLUMNS TO THIS TABLE SHOWING THE IN-SERVICE DATE FOR THOSE THAT ARE NOT CURRENTLY IN SERVICE, AND THE SECOND COLUMN WOULD BE A YES OR A NO AS TO WHETHER THEY'RE CURRENTLY INCLUDED IN RATE BASE

MR. GARNER: If you could --

MS. BARRIE: Sorry, but can I just clarify one thing? When you are saying currently in rate base, what are you referring to?

MR. AIKEN: Instead of currently, maybe I should say concurrent. I want to make sure that you are including these projects in rate base, concurrent with when they go in service.

MS. BARRIE: So the historical ones, okay -- so going forward?

MR. AIKEN: Yes.

MS. BARRIE: Okay, thank you.

MR. GARNER: My question relates to VECC Interrogatory No. 6, and this relate to the service in Casselman.

We had asked a number of questions related to the size of Casselman, the growth, et cetera, and your responses are fine. But what I wanted to follow up were two things.

One, we had asked about whether there was a business case made, and you referred us to the business project that this Casselman is done under. But what I was looking for and didn't see there was whether there was any cost benefit analysis done on the upgrades that would be needed to be done to Casselman versus the reliability issues that might or might not occur.

So were there any financials done showing the net benefit of this project, or was it simply done on the basis of reliability of supply?

MR. BENNETT: In looking at your question and re-looking at your question, first let me just clarify that the 2014 number we identified is not the correct number. That is the summer peak, but that's not the peak of the station. I think the peak of the station was 6.3 or 6.4.

MR. GARNER: As opposed to the 4.3, you're saying?

MR. BENNETT: Exactly, yes. The peak to date in 2015 is about 6.2, just for your information.

The description as well is probably not as comprehensive; it is fairly short in the discussion. So the situation with the station was the existing transformer was leaning, was leaking. The support structure that it's on, it wasn't the catch tub that you have to put it on now to catch the oil. It was just on piers, and the piers had crumbled. So there was a significant amount of work to clean the station up as it was and, of course, that exacerbated the issue that we don't have back up there.

So you are trying to work on the transformer that feeds the town of Casselman, and you don't have any back-up system.

As well, we met with the mayor in Casselman to talk about the proposed generation that's going to go on in Casselman, the proposed business park that they are talking about, and some subdivision work. And our circuits in Casselman were fully loaded; there were no spare circuits out of the station available.

So there were some other things that maybe weren't as obvious in the discussion that we directed you to.

All that to say did we do a comprehensive analysis of dollars per reliability for the station work that we proposed? No, we did not.

MR. GARNER: Fair enough. One thing you mentioned that I find interesting. Are you expecting there to be customer growth in Casselman due to some subdivision builds in the near future?

MR. BENNETT: That's what was indicated to us. In Casselman, we haven't been as, I would say, as closely connected as we are with the city of Ottawa and what their plans are, their development plans and that sort of thing.

But the planning group has met with the mayor there now, and that's our understanding of their plans.

MR. GARNER: Can you remind me, as I can't remember? What are the contribution rules with respect to development and developers and the utility? Would there be a contribution required of the developer if it develops within a certain period for that?

MR. BENNETT: Well, there is a contribution for the circuits and that was one of the discussions that we were having with the mayor, how that process works. So if you want to build a business park or subdivision which is a distance away from the existing infrastructure, then there is a contribution depending on the proposed load of that development. He needed to understand that in promoting potential locations around Casselman.

But yes, a residential subdivision, for example, they basically pay for the civil portion of the infrastructure, and they get credited for a net present value, 25 years of the energy consumed by the subdivision against our costs, our electrical costs associated with it.

Having said that, if there is an extension of trunk to service it, if their load doesn't offset the cost of that trunk extension, then they pay that portion as well.

MR. GARNER: Would they be required to pay a portion of the station costs if it went in?

MR. BENNETT: We have not charged anybody for a portion of the station, no.

MR. GARNER: If that subdivision were to come in subsequent to your building this station and, in fact, you were required to build the station in order to meet the new load, would they then be -- under the rules, would they then be required to make a contribution to that station?

MR. BENNETT: My impression is not, but we've never encountered that, so I can't be sure.

MR. GARNER: I guess why I ask is whether the timing would be material for the cost paid by the residents -- or the cost paid by the ratepayers, the current ratepayers versus those would be paid by the developer as part of a development if you timed it differently, if you did the station on a different timeframe?

MR. BENNETT: I don't have an answer for you.

MR. GARNER: It's okay, I don't think I need to pursue that. But could you -- are you familiar at all with the service that's done for cooperative Embrun?

MR. BENNETT: No, I'm not.

MR. GARNER: So you don't know -- Hydro Ottawa doesn't know whether its service is similar to Casselman's? They are fairly closely related, as I recall, and they are both about the same population. The difference is they are an independent utility.

MR. BENNETT: You're correct, they are close and they're close in size, but I'm not --

MR. GARNER: But you guys don't know the makeup of their service?

MR. BENNETT: No.

MR. GARNER: And when I asked the question about the ability to deal with the reliability issue, as I recall from Embrun is they may have different circuits that come into the Embrun city, is there no other redundancy coming into Casselman from Hydro One?

MR. BENNETT: There is. Hydro One has -- that's what we used in the past, and we used when we had our issues there more recently.

Hydro One -- it is not guaranteed and you -- basically you are dealing with Hydro One responding and cutting in switches in an existing circuit, or some sort of arrangement like that, which helps to some extent for sure, but is not guaranteed and it is not timely.

MR. GARNER: Finally the -- is it necessary to build the second station in order to refurbish the current one, or is this just simply a matter of dealing with a redundancy issue?

MR. BENNETT: Just to be clear, it is not a second station, it is a second transformer.

MR. GARNER: Transformer, thank you.

MR. BENNETT: It is redundancy basically for -- it allows, as you say, split circuits -- provide more capacity on the circuits, provide more circuits, and provide redundancy as you described.

MR. GARNER: Thank you.

The next question I'd like to go to is VECC-9. In this question, we were asking you about how you calculated the forecast for damage to plant, because we had said if you take a longer past view you would get a different number than the one you did.

And what you responded was that you used a two-year rolling average in order to come up with that forecast.

What I was confused about that -- it leads to a larger number. And I was confused about why you would use a two-year rolling average since my thought was this, and my thought process was this: Damage to plant is a random event. It is not a -- it is not something you can really forecast.

Sorry, I'll let you catch up to the interrogatory if you'd like, if that's what you are doing.

So my question really was, was why you used a two-year, and I don't understand why that's a better forecaster of a random event than the last four years or five years, since they are all random? What was the magic in using two years?

MR. BENNETT: I don't know if there was any magic in it. The damage to plant is different than plant failure. In other words, somebody dug it up, ran into it, pulled it down, that sort of thing.

MR. GARNER: Right, I understand.

MR. BENNETT: So we try to recover money wherever we can from the individual that caused the damage. I don't think there was any magic in using the two or...

MR. GARNER: The other thing that occurred to me also is that, as you say, damage to plant is something that happens randomly, like, as I understand it anyways. It's like a car hitting a pole or something like that.

MR. BENNETT: Exactly.

MR. GARNER: And you're forecasting an increase in your spending on damage to plant, but in your SAIFI and SAIDI statistics you are forecasting a better outcome, so it seems to me a little bit at odds with your forecast at, for reliability, you're forecasting, though, more occurrences of what I call the random interruptions to your plant.

Now, not all of it. I'm sure damage to plant actually interrupts, but much of it does. That's what it would cause from. And I'm interested about why that is, why the two are so -- why the two are different?

MR. BENNETT: When you say the forecast in SAIFI specifically --

MR. GARNER: Well, your targets, you know, what your targets are for SAIFI. So you're actually trying to meet targets you've had struggle meeting, and you are forecasting more damage to your plant in the period of the application.

MR. BENNETT: I don't know that we got as granular as looking at damage to plant as part of our safety targets and projections.

For sure, on the asset side we focus more on asset age and condition and that sort of thing, as opposed to damage to plant type of activities.

MR. GARNER: Sure, thank you. And by the way, thank you for correcting my $9 million -- $960 million thing for damage to plant. I'm sure you don't need that much, but...

My next question --

QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: Before you go to your next question, can I just follow up on that? You said that there is no magic to using the two-year rolling average. Well, so I guess my question is: Why did you use it? What's the basis that they used it? You don't use it for anything else; right?

MR. BENNETT: I don't know. I don't have an answer why we used the two years.

MR. SHEPHERD: If you use three years, four years, or five years, the numbers would all be lower; right?

MR. BENNETT: I haven't checked it. If we can take a look at that --

MR. SHEPHERD: Would you undertake to provide to those? Would you undertake provide the three-year, four-year, and five-year --

MR. BENNETT: Yes, we can do that.

MR. SHEPHERD: Thank you.

MS. HELT: Undertaking JTC2.30 will be to provide a historical spending average using three years, four years, and five years.

MR. SHEPHERD: Thank you.

UNDERTAKING NO. JTC2.30: TO PROVIDE A HISTORICAL SPENDING AVERAGE USING THREE YEARS, FOUR YEARS, AND FIVE YEARS.

CONTINUED QUESTIONS BY MR. GARNER:

MR. GARNER: The next question is really -- is VECC 10, and this maybe should have been a question for the other panel, because it maybe is more philosophical than it is about what the response is.

This is a response about system renewal service projects. In the second line of the response at (a), on page 1 of 2, it says the "2017 to '20 projects listed are not yet optimized and thus specific projects with start dates and in-service dates have not been confirmed", and I was trying to wrap my head around what -- the proposal that Hydro Ottawa is putting forward. I just want to make sure

I understand what's being said in the application.

Hydro Ottawa is projecting a capital budget to 2020, but it's saying that in 2018 it is going to recast that budget again?

MR. BENNETT: From a capital budget point of view, what the information is saying that -- so we did a -- we try to do our budgeting two to three years ahead. The process that we used from the assets side of it in generating that asset plan or the annual plan, et cetera, was, I'll call it a manual process.

There is an optimization process in there. We followed the UMS optimizer process, but it's done on multiple spreadsheets, et cetera.

So the description of how we've done the two-16 in the application is our process that we used, and we used optimized 2016.

We did create a 2017 budget as part of the project, so in fact all of my designers put together designs and estimates for that.

We used, if you want, the old process to optimize in a sense the 2017, but our plan is to use our C-55 package to actually optimize our 2017, so all the projects go in, then it runs through and identifies what's the best bang for your buck, given the criteria you've put in the program.

So 2-17 is -- I don't know what the percentage is, but I'm about to say 80 to 85 percent complete, but that final optimization will take place in C-55. We'd like to do it once we get some of the health indices updated, but it depends how that progress of that project goes.

The rest of the activity is based on, I'll call a program level, so the program level is based on our projection of pole replacements, cable replacements, and that type of thing, but it has not been prioritized. So the projects themselves have not been designed and estimated, and the program for the entire year, the capital program for the entire year, has not been prioritized through C-55 process.

MR. GARNER: Okay. Thank you.

If they're not designed and estimated, how is the budget then created for the '17 to '20 projects?

MR. BENNETT: '17 is designed and est --

MR. GARNER: '17 is. '18 to '20 --

MR. BENNETT: '18 to '20, it's at the program level, so they don't have individual -- so if I use pole replacement as an example, and you've got an envelope of pole replacement work that needs to be done, we do it at a program level first to say in 2018 we are projecting these areas and this number of poles, and we're using a planning estimate to put that together, but we are not actually pulling out the actual designs and doing the design estimates.

MR. GARNER: Okay. And is this a common method you've been using for, you know, a while now at Hydro Ottawa?

MR. BENNETT: Yes.

MR. GARNER: Okay, and in the past, do you do a comparison of these estimates with the actuals as they come forward? So do you take a snapshot and say, This is what we thought was going to happen when we went through this process and then when we optimized it and did this here's what we actually did? Do you ever look back and ask yourself how -- that question?

MR. BENNETT: Not on the -- so just to be clear, so not on the optimized package, if you like, but on the actual programs, yes, so when we -- you know, if you estimate $5 million for pole work and here's the projects that we're going to do, then when we're doing the design estimates we compare that back to the $5 million, and if, for example, we came out with $6 million based on the design estimate, then we start to consider about what we might not do or what we'll wait until later in the year to see how we're doing, you know, whether we are going to be over that 5 million. And then at the end of the whole process then we go back and compare against the estimate as well.

MR. GARNER: Well, maybe another way -- thank you -- and another way for me to ask that is, what comfort level should we have with the budgets that are for '18 to '20 based on the description you are giving me, which as I understand it is their '18 to '20's budget -- capital -- or capital budget is based on a different process, a less -- I may be wrong to say the word "accurate", but I'll use the word accurate process than the '16 to '17, which are optimized?

MR. BENNETT: I would say that the '16 and '17 will be

-- are much more final in their actual project level activity, and the -- our plan in the '18 through '20, of course, is to live within that envelope, so we know we have more work to do than we have money budgeted, and so our task is to live within the envelope that we've put forward and maintain the reliability that we plan to maintain.

MR. GARNER: So if your budget shows in -- when it's optimized for the '18 to '20 period, if that shows that you have too little money, you'll just spend less on some things. If shows you have too much money you always have projects that you can get done and you will just advance to those projects and do those; is that the idea?

MR. BENNETT: Well, the library is larger in a sense than a year at a time, so, you know, there is a -- I'll call it a stack of projects in the library which have been roughly estimated, and you go through the prioritization process and narrow it down. And then you go back at those and do a much more detailed estimate to see, okay, am I going to be able to live with the money that we've identified.

So it is sort of a two-step process, it you like.

MR. GARNER: Okay, thank you. I think --

QUESTIONS BY MR. SHEPHERD:

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

I'm a little confused here, I guess, because I thought that the whole essence of your application was that you had a capital budget that was based on a bottom-up budgeting.

Now it sounds to me like you're telling us that for

2018 to 2020, you are asking for an envelope and you don't know what you're going to spend it on yet.

Am I missing something in the middle, because that doesn't sound bottom-up to me?

MR. BENNETT: It is bottom-up from the point of view of the need. It is top-down from the point of view of we've established a cap on the overall budget. So you've got to live with the cap on the budget and address the need within that envelope.

Now, when I say that, it is not an uninformed envelope. There is plans for cable replacement, pole replacement, transformer replacement, new capacity all throughout, and it is identified in our asset management plan distribution system plan.

But the actual final designs and the final budgets have not been put together on those.

MR. SHEPHERD: And they could be materially different from what you have now?

MR. BENNETT: It could be. You could you have a project that you thought was going to be a million, and it's five million. Well, I'm not going to do it all in 2016 or 2017 when we go through the process.

MR. SHEPHERD: You actually don't have an estimate for each project anyway. You haven't identified the project, right?

So you don't have a project that you thought was going to be million because you don't have any projects.

MR. BENNETT: When I say I haven't done it at the project level -- so when do you pole replacement, you identify where you're going to do it, and you do estimates for that activity.

When you get right down to the design, the designer takes that then, actually does the design, identifies the full estimate of his design and compares it back.

So there are estimates and there is information about what we're proposing to do. At the end of the day, though, if things change, or if the price is significantly different when the designer does his estimate, then that could adjust what you are actually going to do.

MR. SHEPHERD: You're talking about pole replacements, and I understand that sometimes you budget things like pole replacements on how many poles do we have to replace, and what does it normally cost us on average per pole.

But question 10, that question is actually about station asset investments. And station asset investments are – you'll agree they are much more specific and the costs are much more specific to the nature of the station, or whatever the problem is you're fixing, right?

MR. BENNETT: Yes, sorry, I didn't look at the specifics of the stations portion of it.

MR. SHEPHERD: The reason I'm following this up is because normally, if you do a top-down, you have some reference point. You say here's my external reference point. It may be your own pole costs, so for poles you can have a reference cost. Poles cost us $2,722 each to replace on average, so let's use that for now.

But for station assets, you can't do that, right? You don't have the --

MR. BENNETT: Not as simply, no.

MR. SHEPHERD: So, what's your external reference that gives you a top-down number? Is it some industry standard? Is it some past history? Is it some benchmarking to other utilities? Help me where you got your top-down numbers from.

MR. BENNETT: When you say "top-down" -- when I was referring to top-down, I was talking about the overall budget envelope.

MR. SHEPHERD: Uh-hmm.

MR. BENNETT: Are you referring something different?

MR. SHEPHERD: Your overall budget envelope isn't just a number that you picked out of the air, right?

You told the Board in your application that you are coming with a bottom-up capital plan. So I'm trying to reconcile that with the fact that you have no capital plan for 2018 to 2020.

MR. BENNETT: What I'm saying is we do have a capital plan, but the final capital plan has not been optimized from the point of view of the project level through our C55 optimization process.

So the station activity -- absolutely there is much more activity about what we're planning to do with the stations themselves.

Again, things can happen and change that plan, but so we --

MR. SHEPHERD: The question asked you to identify all station asset investments by year, and you say you can only do ones with start dates prior to 2017.

So don't you know what the investments are for the later period?

MR. BENNETT: For station projects?

MR. SHEPHERD: Yes.

MR. BENNETT: So that's an example. So we have identified, for ourselves from the bottom-up portion, the station activity in those years, but can't confirm that that's going to be the final answer when we go through the process.

MR. SHEPHERD: So the budget is based on what you -- on the stations you expect to fix or replace?

MR. BENNETT: Yes.

MR. SHEPHERD: And we have a list of that somewhere, right?

MR. BENNETT: Well, it's in the distribution system plan, yes.

MR. SHEPHERD: Well, it is not the distribution system plan, because you've changed that for the application, isn't it?

The DSP numbers and the application numbers are not the same, right?

MR. BENNETT: They are not exactly the same, but yes.

MR. SHEPHERD: I'm trying to understand why you couldn't give the forecasted spend for all your station projects that are in your plan, why you had to limit it to the start dates prior to 2017.

MR. BENNETT: I mean, it if would be helpful, we can provide what we have planned for all the stations work in the period that we're talking about.

MR. SHEPHERD: Yes, exactly as the question says, all station asset investments by year for projects started in-service dates as you currently plan.

MR. BENNETT: Perfect, yes.

MR. SHEPHERD: Can you do that?

MR. BENNETT: Yes.

MS. HELT: That so that will be undertaking JTC2.31, and I believe it's in relation to VECC-10.

MR. SHEPHERD: That's right.

UNDERTAKING NO. JTC2.31: IN RELATION TO VECC-10, TO PROVIDE ALL STATION ASSET INVESTMENTS BY YEAR FOR PROJECTS STARTED IN-SERVICE DATES AS CURRENTLY PLANNED

MS. HELT: And, Mr. Garner, I believe you have just one or two more questions?

CONTINUED QUESTIONS BY MR. GARNER:

MR. GARNER: I just have one, and if we then can break for lunch, as long as maybe I can look through my questions over lunch and make sure I've covered them all.

But I do think this is the last question I have in this area, and it is related to VECC-12. This asks you to assign the costs related to the IT strategy that was shown at page 16 of the IT strategy document, and you referred us to OEB Staff question No. 15.

But I don't think that question answers -- or that response to OEB Staff question 15 answers our question.

Our question was very specific. If you go to the IT strategy, as I recall it there is a table there, and that table had a number of strategies. And what we are trying to understand is the costs of each one of those strategies, and how -- and where they were being dealt with.

Now, when I looked at that table -- I could be incorrect, but the way I read the table was that there were a number of different projects that may address multiple items. So one IT project may address a number of strategies.

I couldn't figure that out from the table, because the table is simply a list of strategies. I'm wondering if you could look at that table and undertake to respond to the IR in the manner that we were seeking, or if it's not -- if you can't, then explain why that can't be done, and just give us a better understanding of that.

Maybe over lunch is a time for you. You can take a look at that table and see what we meant.

MS. JONES: We can do that.

MS. HELT: So there won't be an undertaking at this time, and we can revisit this after lunch?

Just before we do break, we only have until the end of day for completing the technical conference, so we still have a number of exhibits to get through.

Can I just get a time estimate from individuals? Mr. Shepherd, let's start with you on this panel.

MR. SHEPHERD: I have about twenty minutes.

MS. HELT: Twenty minutes, all right.

And then we have exhibits 4, 5, 6 and 9 left. So overall estimates? I'll start with you, Mr. Aiken, on those four exhibits?

MR. AIKEN: Thirty minutes maximum, I think.

MS. HELT: Total?

MR. AIKEN: Yes.

MS. HELT: Mr. Garner?

MR. GARNER: I think about the same.

MS. HELT: So that's an hour and a half given an extra ten minutes for Jay on finishing up on this panel.

Well, Mr. Shepherd, your estimate for 4, 5, 6 and 9?

MR. SHEPHERD: I certainly won't be more than an hour.

MS. HELT: So that's two half fours.

MR. CLARK: Fifteen minutes or 20 minutes.

MS. HELT: So if we so if we come back at quarter to 2:00. That is just under an hour. That will help us ensure that we'll get finished today. All right so we will break until quarter to 2:00. Thank you.

--- Luncheon recess taken at 12:50 p.m.

--- On resuming at 1:46 p.m.

MS. HELT: Welcome back, everybody.

Are there any matters that occurred during the break that need to be addressed before we resume? No? All right. Oh, there is, sorry.

PRELIMINARY MATTERS:

MS. COLLIER: So just one, the last -- just before lunch -- we will undertake to map the IT projects to the table that's provided in the IT strategy in terms of the categories listed there.

So for some of them, some of the projects likely came out of the budget, in terms of the reductions. So for those that don't map, we'll just kind of provide a bit of a written explanation as to why they're deferred or whatnot.

MR. GARNER: Okay. Thank you. What --

MR. SHEPHERD: Does that have an undertaking number?

MS. DJURDJEVIC: Sorry, sorry, now, is this -- because I'm just coming into this process now, is this already made an undertaking on the record or is this a new undertaking?

MR. GARNER: I think this is a new undertaking --

MS. DJURDJEVIC: Okay. So that'll -- yeah, JTC2.32.

UNDERTAKING NO. JTC2.32: TO PROVIDE AN EXPLANATION AS TO THE BUDGET DEFERRALS.

MS. DJURDJEVIC: Okay. Sorry, go on.

MR. GARNER: What I was going to ask is what I was particularly interested in is the financial cost of the IT strategy, so what would be helpful when do you that mapping is, for instance, there were a number of strategies, and yet you may have one IT program called ERP, let's say, and it may take care of, let's say, three of those strategies, so what I'd like to be able to see is that kind of thing, so it will be able to say these strategies are all ERP and the cost of that is this over the project

And what I'm really just trying to ascertain from all of this is, what's the cost of the IT strategy as it's presented there in each one of the years, and what actual programs are actually addressing that strategy.

MS. COLLIER: Okay.

MR. GARNER: Thank you.

MS. DJURDJEVIC: If there is no other preliminary matters, I guess we will just continue. Are you going by topic, I guess?

MR. SHEPHERD: Yeah, that's me.

MS. DJURDJEVIC: Okay.

QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: So I only have a few questions. Let me start with Staff No. 19. You are talking about a $502,000 adjustment to rate base; right? And I guess -- I have to tell you, though, I can't figure out how that affects your proposed rates.

Is that simply an additional amount that's being included in rates going forward, or is it not included? How does that work?

MS. COLLIER: It is included as an adjustment to the proposed rates.

MR. SHEPHERD: To opening rate base, so that means that roughly 10 percent of that would be an annual cost to ratepayers for depreciation and cost of capital, et cetera; is that right?

MS. COLLIER: Roughly, yes.

MR. SHEPHERD: And the reason for that is because you changed your burdens and useful lives twice?

MS. COLLIER: No, so...

MR. SHEPHERD: Because you made an adjustment already for changing your burdens and useful lives; right?

MS. COLLIER: Yes, so when we filed the 2012 application in 2011, we changed all our -- and that was really our IFRS filing.

MR. SHEPHERD: Yes. Yes.

MS. COLLIER: We changed all of our burdens and all of our lives, and the thought was at that point in time we would transition to IFRS as of January 1, 2012, but, you know, with an opening balance sheet date of the year before, because that's just how the standard applies.

MR. SHEPHERD: Yes, of course.

MS. COLLIER: In December of 2011 there was a very late news. I mean, Canada as a country was fighting very hard to get rate regulation on the agenda at the International Accounting Standards Board, and finally, you know, there was a -- finally there was a win in December, and they realized that this is something they should look at further, and so they deferred the adoption date -- the mandatory adoption date to 2015

So we chose to take the -- take the deferral for external financial reporting, so this adjustment aligns now the two sets of books. So our --

MR. SHEPHERD: Okay, so let me just stop you there. In January 1st, 2011 you changed your -- your useful lives and your burdens for all purposes going forward; right?

MS. COLLIER: No, just for regulatory purposes. For external financial reporting purposes it wasn't changed until 2012.

MR. SHEPHERD: But then of course it wasn't changed until 2012 either, right, because you waited --

MS. COLLIER: No, we did change it under Canadian GAAP rules, because you can, and the OEB had issued basically direction as well to do that, but you can't go back in Canadian GAAP; it is not like you are applying a new accounting standard, so we couldn't retroactively apply them to '11.

MR. SHEPHERD: So this $500,000 then only applies to 2011.

MS. COLLIER: I mean, it is the ending net result, the -- basically, the net book value of those changes in 2011, yes.

MR. SHEPHERD: Okay. So I don't understand how, if your regulatory was set correctly on January 1st, 2012 -- it was; right?

MS. COLLIER: That's correct.

MR. SHEPHERD: Then why are you changing your regulatory again? Why aren't you changing your external financial?

MS. COLLIER: The main -- oh, we can't change our external financial. The external financial rules we're adopting IFRS on January 1, 2015, or have adopted it on January 1, 2015, and thus the opening balance sheet date is January 1, 2014. We can't retroactively change that to January 1, 2011.

MR. SHEPHERD: Well, sorry, no, sorry --

MS. COLLIER: So this adjustment --

MR. SHEPHERD: Sorry, let me just stop you.

Your opening balance sheet for external financial purposes is actually January 1st, 2012; right?

MS. COLLIER: No.

MR. SHEPHERD: Because you made the changes for C GAAP purposes; right?

MS. COLLIER: But that's not an opening balance sheet, so we --

MR. SHEPHERD: Well, it was an opening balance sheet --

MS. COLLIER: -- we did --

MR. SHEPHERD: -- for that year.

MS. COLLIER: No, the changes -- no, there is no such concept of an opening balance sheet under C GAAP. We did make burden changes and life changes as of January 1, 2012 for C GAAP, but it is not an opening balance sheet type --

MR. SHEPHERD: But the -- your PP&E numbers, this is what we're talking about, right, your PP&E numbers? They were correct in 2012 and '13 for financial purposes, and 2014 simply follows that through. You didn't make additional change to external financial at that time; right?

MS. COLLIER: That's right, it was all under Canadian GAAP.

MR. SHEPHERD: So Canadian GAAP -- for the purpose of burdens and useful lives, Canadian GAAP and IFRS were the same for 2012 'til now; right?

MS. COLLIER: Yes.

MR. SHEPHERD: Okay, so then the problem is that your regulatory was set for your 2012 rebasing year as if you had changed from 2011, but you didn't change from 2011, you actually were only allowed to change from 2012, because it was a C GAAP rather than an IFRS change.

MS. COLLIER: Yes, in our regulatory books we made the change as of January 1, 2011.

MR. SHEPHERD: So you are saying that the change that was done in 2012 on which rates were set for years was incorrect? And retroactive -- now that we know what we know today, it turns out it was incorrect.

MS. COLLIER: Because of the date change. I mean, the adjustments we made in that application were correct, but because of the announcement that came out and the decision to defer our adoption date for external financial reporting is what's causing this change. And, I mean, obviously this change is well below our materiality level, but this really is to eliminate the need to maintain two sets of detailed fixed asset ledgers going forward so that we're aligned.

MR. SHEPHERD: So the end result is that now your January 1st, 2012 rate base, PP&E rate base, and external financial PP&E are different by $502,000; right?

MS. COLLIER: Yes.

MR. SHEPHERD: As of January 1st -- because in 2011 you had -- you had implemented longer useful lives and reduced burdens?

MS. COLLIER: That's correct.

MR. SHEPHERD: But for financial purposes you've not done that.

MS. COLLIER: That's correct.

MR. SHEPHERD: And why is the net result that rate base has to go up?

MS. COLLIER: This is the net result.

MR. SHEPHERD: Because you took less depreciation?

MS. COLLIER: Yes.

MR. SHEPHERD: See, I would have thought that the old useful lives -- because now what you're doing is you're going back to 2011 to the old useful lives and the old capitalization burden, right?

MS. COLLIER: Not for 2011.

MR. SHEPHERD: It's 2011 you're trying to adjust, right?

MS. COLLIER: It's the year 2011 that we're trying to adjust, but we're not trying to -- I mean, we're trying align the two sets of books.

So the external set of books was not adjusted for 2011, nor can it be adjusted for 2011.

MR. SHEPHERD: No, but we're talking about regulatory now. You are not asking the Board to change your external --

MS. COLLIER: I know, but what I'm saying is that from an efficiency point of view, so that we do not have to maintain two separate sets of fixed assets sublegders from now and forever more in the future, this is the adjustment to align regulatory to our external figures.

MR. SHEPHERD: No, I understand that; that's the easy part.

The harder part is your January 1, 2012, opening rate base for PP&E, you're saying should have been $502,000 higher, now that you know what you know.

And therefore, I take it that you took too much depreciation in 2011 in your adjustment at that time; isn't that right?

MS. COLLIER: That's a very simplified view of it, but I mean essentially -- so I mean there's a lot of things that change, right? Burdens in all the CIP for that year changed, and then all the lives changed, but --

MR. SHEPHERD: There is really only two changes. There is a change to your burdens, which has -- there is a lot of details, but there is an overall calculation.

MS. COLLIER: Yes.

MR. SHEPHERD: And typically that means that the amount at capitalized is reduced, right?

MS. COLLIER: That's right.

MR. SHEPHERD: And then there is a change to your useful lives, and that typically means that the amount that you -- that you take in depreciation goes down. And that happened in both cases to you; right?

MS. COLLIER: That's correct.

MR. SHEPHERD: So do we have that calculation of the $502,000 somewhere, what you reported as opening rate base and closing rate base in 2011 at the time, and what you are saying it should have been, and the effect of burdens and useful lives that caused that difference? Do we have that?

MS. COLLIER: I mean, you have the end result of that calculation in the 2VA fixed asset schedules on the per line -- on the per line item.

We have not separated each adjustment between depreciation and burden. And again, for 500,000 which is well below materiality, I don't know that I'd be willing to even go through that.

MR. SHEPHERD: You still want the half a million dollars, right?

MS. COLLIER: We do, we do, and I think ratepayers would want that to happen, so as to avoid future costs, which we have not built into our of application of maintaining two sets fixed asset sub-ledgers from now on, one for regulatory and one for external reporting.

MR. SHEPHERD: The only reason this happened is because you delayed implementation of IFRS after telling the Board you were going to do it January 1st, 2012. So not our fault.

MS. COLLIER: We did that so that we now, for external financial reporting, can recognize the very important regulatory assets and liabilities.

MR. SHEPHERD: well, you could in any case. You just --

MS. COLLIER: We couldn't in our external financial statements, no.

MR. SHEPHERD: In 2012, you couldn't. But today you could, regardless of --

MS. COLLIER: No, you cannot. With the way the standard has been issued, if you adopted in 2012, you were not grandfathered into the standard.

You may in the future, when they publish the final standard, but right now you cannot.

So we made what we thought was the best decision at the time to reduce the cost to ratepayer; one, to avoid having two sets of audited statements going forward, one with regulatory assets of liabilities in and one without, and we knew the merge of the fixed assets would come together at this point.

MR. SHEPHERD: How is this reducing costs to ratepayers? Why would we be paying any more because you decided to change when you'd implement IFRS? Why would that be our cost?

MS. COLLIER: If we would have went ahead with the January 1, 2012 implementation of IFRS, we would probably be undergoing two sets of audits right now; one for regulatory financial statements and one for external financial statements.

MR. SHEPHERD: And you're saying that would be our cost?

MS. COLLIER: I believe, yes.

MR. SHEPHERD: And so I've asked you to show us how you calculated that $502,000; you're not willing to do that?

MS. COLLIER: That would be very time consuming to do.

MR. SHEPHERD: So if I can go and do it in an hour, you'll think it would take a long time?

MS. COLLIER: I would be happy to review your calculation.

MR. CLARK: Are you planning to leave this topic? Because I have a question, if I may.

MR. SHEPHERD: I just want to note on the record a refusal.

MS. DJURJEVIC: Okay, and that will be, I guess RTC -- what do we call refusals?

MR. SHEPHERD: You don't need to have a number for it.

MS. DJURJEVIC: All right. So can we just state it for the record, so --

MR. SHEPHERD: Yes, the refusal is to calculate the $502,481.

MS. COLLIER: Just to clarify, it is calculated and it is shown in schedule. What I'm refusing to is it to show the separation line by line between how much relates to depreciation and how much relates to burdens, because I really don't see the relevance.

MR. SHEPHERD: That's fine. Disaggregating one number into two, it should be should be fairly easy. But that's fine.

You have a question?

QUESTIONS BY MR. CLARK:

MR. CLARK: I'd like to come at it from a different perspective.

You set rates in 2012 based on IFRS. But you didn't change your accounting; you stayed at C GAAP. So you continued to over -- you continued to capitalize indirect labour costs and so on, for C GAAP. And that's part of this half million dollars; is that correct?

MS. COLLIER: Not for 2012. Under C GAAP as of January 1, 2012, as per the Board's direction, we did change -- we did reduce our burdens and we did change our useful lives.

The difference arises from the 2011 year, which is kind of the comparative year under IFRS. So when we filed the application, we had to go back and assume an opening balance sheet date of January 1, 2011. So the difference is really just that 2011 year.

MR. CLARK: I thought you were supposed to have booked that in 1555.

MS. COLLIER: We did book what was approved. This is the difference between changing our opening balance sheet date of January 1, 2011, to January 1, 2014.

MR. CLARK: So this was been collected over that period? You've booked this amount of money -- let me back you have one step.

So you are saying in C GAAP for the years 2012 through to 2014, you booked overheads the same way you would book them under IFRS?

MS. COLLIER: For '12, yes. As of '12 onward, yes.

MR. CLARK: As of '12 onward, for your C GAAP reporting?

MS. COLLIER: Yes.

MR. CLARK: For your C GAAP reporting?

MS. COLLIER: Yes.

MR. CLARK: But you didn't change your useful lives?

MS. COLLIER: We did; we changed both from '12 onwards.

MR. CLARK: So in other words --

MS. COLLIER: This difference is the one year difference and the ending net book value of that one year difference.

MR. CLARK: Okay, I thought that was supposed to been booked into 1555.

MR. SHEPHERD: 1575.

MR. CLARK: 1575, pardon me.

MS. BARRIE: At least how we read the description of the US of A accounts, and they were initially set up for transitioning not in the year in which we did, and we felt that that 2011 period didn't fall within the definition of either one of those accounts.

MR. CLARK: Okay. Thank you.

MR. SHEPHERD: That doesn't count towards my twenty minutes, eh?

CONTINUED QUESTIONS BY MR. SHEPHERD:

My next question is on Energy Probe 15, and I'm on page 3, and I just want to clarify a statement you made here in your answer to (c), Energy Probe 15, page 3 of the answer, the response to (c) -- there you go.

And you'll see at line 13, you say:

> "We are not forecasting any payments required to Hydro One Networks."

Now, I want to make sure I understand what that is --

and I think I do, but you say "we are not forecasting", but am I correct that what you are actually saying is we are forecasting no payments required to Hydro One Network? Is that correct?

MR. BENNETT: I think this was the same one that we were talking about earlier that we were going to provide some more information, but the understanding that we have of the answer is that there's no true-up payments forecasted at this point.

There will be potentially payments for new Hydro One projects. We are working on that cost allocation process with Hydro One. We don't know what the costs might be yet.

MR. SHEPHERD: So --

MS. COLLIER: But to Mr. Shepherd's point, I think it is a grammatical change, so I think you're correct. We are saying we're not forecasting any payments.

MR. SHEPHERD: Well, no, you are saying you are forecasting, but it is no payments.

MS. COLLIER: No payments, yes.

MR. SHEPHERD: But internally you are forecasting that there will be payments of indeterminate amounts; is that right?

MR. BENNETT: Correct.

MR. SHEPHERD: What's your latest forecast of -- or your latest estimate of what those amounts will be? Because you're working through the process now; right? So you've got some preliminary numbers.

MR. BENNETT: I don't have them with me. If we've got numbers at this point, other than the $5 million bookmark that we've put in for the application.

MR. SHEPHERD: What I'm trying to -- I'm sort of trying to get a "bigger than a bread box" type of answer to this. The ratepayers have to be concerned with how much you've asked for, but also how much you might get in the future as a result of the variable things that are included in the application, so if there is potentially another $20 million that you are going to have to pay to Hydro One, or at least that's what you think, then we should know that.

So that's what I'm trying to get at: Is there some potential big number that we might have to pay for Hydro One payments in this five-year period?

MR. BENNETT: We're working on the cost allocation policy with Hydro One, and we have worked hard this year to try to understand how their cost allocation policy works, to do better forecasting. I don't have a better forecast at this point.

MR. SHEPHERD: Based on the work you've done to date, is it potentially a big number?

MR. BENNETT: I hope not, but I can't guarantee it, because, as I say, we were surprised by the number we got last year, but, I mean, we can provide the latest information we have. I don't know if it's going to be sufficient.

MR. SHEPHERD: If you could provide the latest information you have, that would be wonderful.

MR. BENNETT: Sure.

MS. DJURDJEVIC: That will be Undertaking JTC2.33.

UNDERTAKING NO. JTC2.33: TO PROVIDE THE LATEST INFORMATION AVAILABLE FOR HYDRO ONE PAYMENTS IN THIS FIVE-YEAR PERIOD.

MR. SHEPHERD: All right, then the next question I have is on Energy Probe 16. This is that $750,000 a year that you put in for disposals. And I understand the disposals are pretty variable numbers, but they're also things that relate to your capital planning usually; right? Most of your disposals come about because you have a plan you're going to -- you are going to replace a line because of a road-widening, say, or something like that.

And so my question is: What information do you have on what your disposals are currently expected to be over the 2016 to 2020 period?

MR. BENNETT: Could you repeat your question?

MR. SHEPHERD: Sure, what I'm looking for -- and I'm going to ask you to give us an undertaking -- is a list of all assets that you're expecting to take out of service that will have material -- or more than zero book value according to your current projects, because every disposal is related to a project, typically; right?

MR. BENNETT: Yes, most of the disposals are related to projects driven by third parties, mostly, so as I described before, if we have a pole line that's built along a road within the first five years, if we're asked to remove it, for example, or move it, they pay us 100 percent for that. But in theory there could be disposals associated with it. If it's within the life span of the pole line, there could be disposals associated with that as well.

So it is within what I call the demand-side of the work. I'm not sure we actually have the information to that level on the demand-side of the work that we've identified, the disposals that may be associated with the activity.

MR. SHEPHERD: You have all of your projects for 2016 and 2017 already identified; right?

MR. BENNETT: For...

MR. SHEPHERD: For your entire capital plan, right?

MR. BENNETT: No, that's incorrect. So for the demand-side projects, the projects where customers coming asking us to build it, we have projections, what we expect the work to be, but, no, we don't have the full plan, and they could or could not happen depending on the customer.

MR. SHEPHERD: Some of them you know about.

MR. BENNETT: Some of them we have got a pretty good idea they're going to happen. Absolutely.

MR. SHEPHERD: I mean, the city has already told you, We are going to widen this road and we're going to replace this building, et cetera, et cetera, right? They've already told you that --

MR. BENNETT: In some instances, yes, they have.

MR. SHEPHERD: So what I'm asking to you do is give us a list of the assets you are replacing in the projects you know about that have any substantial net book value, if you can. I mean, obviously, as with any of the questions, you can come back and say it is way too much work, but I'm guessing that the projects that could be affected by this are only a couple of dozen, and you can simply go through and list what you're getting rid of.

MR. BENNETT: We'll take a look.

MS. DJURDJEVIC: That will be Undertaking JTC2.34, which is to provide a list of all the assets expected to be taken out of service that have any substantial book value.

MR. SHEPHERD: Along with their net book value.

UNDERTAKING NO. JTC2.34: TO PROVIDE A LIST OF ALL THE ASSETS EXPECTED TO BE

N OUT OF SERVICE THAT HAVE ANY SUBSTANTIAL BOOK VALUE, ALONG WITH THEIR NET BOOK VALUE.

MR. SHEPHERD: My next question is -- no, I asked that one already -- is SEC No. 15. On page 4 you have a table, SEC 15-3. It is labelled "forecast capital cost versus projected savings". I'm not sure I understand what "versus projected savings" is. I thought this was just a table of capital cost.

MR. BENNETT: You're correct.

MR. SHEPHERD: And then with respect to that same thing, for 2015, '16, and '17, you actually know what projects are involved, what cable rejuvenation projects you're planning; right?

MR. BENNETT: Correct.

MR. SHEPHERD: So why are the numbers identical, 500,000 in each case?

MR. BENNETT: The $500,000 is what's budgeted for cable injection.

MR. SHEPHERD: But you actually know what the projects are; right? They are not exactly 500,000; they're some other number.

MR. BENNETT: It's done by -- on contract basis, so basically the plan is to do $500,000 worth of work. Those are the projects we have identified.

MR. SHEPHERD: Oh, I see.

MR. BENNETT: But the plan is to do $500,000.

MR. SHEPHERD: All right. My next question is on attachment 11(a), SEC 11(a). I'm not sure this is actually in capital or in operating, but it's in the capital section, so I'm asking it here.

You see the summary of recommendations on page 2 of that "retiree and older worker engagement strategy"? Do you see that list? Can you undertake to provide with us a table showing which one of those are done and which one of those are not done, and for the ones that are not done, what the status is?

MS. COLLIER: Sure.

MS. DJURJEVIC: That will be undertaking JTC2.35.

UNDERTAKING NO. JTC2.35: WITH REFERENCE TO THE LIST ENTITLED "RETIREE AND OLDER WORKER ENGAGEMENT STRATEGY" IN THE ATTACHMENT TO SEC NO. 11(A), TO PROVIDE A TABLE SHOWING WHICH ARE DONE ARE WHICH ARE NOT DONE, AND FOR THOSE NOT DONE, WHAT THE STATUS IS

MR. SHEPHERD: In the next one -- again, this is – it's attachment SEC-12(a). I'm not sure I understand how it connects to capital, but that's where it is and that's why I'm asking about it.

This is your DBRS report, and what I'm trying to get is: Can you confirm that the figures on page 4 of the DBRS report are correct, to the best of your knowledge?

Many of them probably came from you, but some of them may not be, because they're calculations by DBRS. So I'm asking if you can confirm that in the table on the top half of that page, the figures are correct.

MR. GRUE: These numbers are not provided by us. They are prepared by DBRS from our financial statements from the holding company that are provided.

MR. SHEPHERD: So you're not able to reassess --

MR. GRUE: I can't confirm the total accuracy of them. We do a high-level review, but each line item, no, I can't do that.

MR. SHEPHERD: You didn't see anything that jumped out at you, and you said, oh, that can't be right?

MR. GRUE: No.

MR. SHEPHERD: Okay, thanks. The next question is on attachment SEC-15(a); do you see that? That's a spreadsheet with, as Mr. Aiken puts it, the smallest figures the world has ever known.

I have a simpler question. This is an Excel spreadsheet; can you please provide us with the Excel version?

MR. BENNETT: Did they not provide the Excel version at the -- did they just provide this in the attachment?

MR. SHEPHERD: I didn't see the Excel, and if you have provided it, just let me know.

MR. BENNETT: We can provide the Excel versions, yes.

MR. SHEPHERD: If you could, I would appreciate it.

MS. DJURJEVIC: That will an undertaking JTC2.36.

UNDERTAKING NO. JTC2.36: TO PROVIDE AN EXCEL SPREADSHEET VERSION OF THE ATTACHMENT TO SEC 15(A)

MR. BENNETT: So that was question SEC-15 (a) attachment, correct?

MR. SHEPHERD: Yes, it is the age distribution of assets. I have to assign somebody like an hour to put it in a spreadsheet, unless you have it.

Next is SEC-16, and I had understood that you were planning to have your lead lag study done in August; wasn't that right?

MS. BARRIE: It's supposed to be done end of September.

MR. SHEPHERD: End of September. So you haven't started yet?

MS. BARRIE: We have started gathering the data requirement, yes. But I believe it's in the evidence that we're trying to go from -- or we are going from July 1, 2014, to June 30, 2015, so we couldn't start accumulating the data until July of this year.

That's to accommodate -- to have an equal to our billing system transition.

MR. SHEPHERD: Of course, of course. You are going to have an external company do this, though, right?

MS. BARRIE: At this time, that's the plan, yes.

MR. SHEPHERD: But you haven't done your RFP yet, and you don't have a list of theirs?

MS. BARRIE: We are working on the process to get the services, yes.

MR. SHEPHERD: To get what?

MS. BARRIE: To have service to help us out with it, Yes. It is not finalized.

MR. SHEPHERD: Is this going to be bid, or sole-sourced?

MS. BARRIE: It is going to be sole-sourced, most likely.

MR. SHEPHERD: Who is the company?

MS. BARRIE: Navigant.

MR. SHEPHERD: Did you know that when you responded to this?

MS. BARRIE: No.

MR. SHEPHERD: That's all my questions on capital, thank you.

MS. DJURJEVIC: I guess that is the end of the questioning on capital, and the next chapter is on OM&A.

And who is going first?

QUESTIONS ON OM&A

QUESTIONS BY MR. AIKEN:

MR. AIKEN: I can go first; it's Randy Aiken behind the pillar.

I just have a few questions, and the first one is on 4 Energy Probe-28. In that question, I had asked for the impact on OM&A of a one percent increase in customers, and the response indicates an insignificant impact on OM&A.

Then that's followed by a number of items that are discussed that total about $70,000, but the impact to bad debt collection expense was not quantified.

Would I be correct that the total impact, including bad debt collection expense, would be somewhere in the neighbourhood of $100,000 at most?

MS. COLLIER: I would provide the exact same estimate, so yes.

MR. AIKEN: Okay, thank you. Then the next is 4-Energy Probe-29. This is the updated recoverable OM&A cost driver table that's provided on the third page of the response.

What I noticed was what was missing, and that was anything to do with any one-time cost drivers for things like ice storms and that kind of thing. Were there no one-time cost impacts or cost drivers over the 2012 to 2014 period?

MS. COLLIER: The vegetation management is certainly a one-time cost driver, in terms of our storm hardening efforts. But we did not have any ice storms in that period.

MR. AIKEN: When you say the vegetation management, are you talking about the $1.5 million increase in 2014?

MS. COLLIER: That's correct.

MR. AIKEN: Okay.
MS. COLLIER: That was our storm hardening project, as described in the evidence.
MR. AIKEN: With respect to the change in the accounting for inventory scrap recovery which is near the bottom of that table, am I reading this table correctly in that the OM&A in 2014 increased by about .6 million because the credit for this recovery was removed from OM&A in 2014?
MS. COLLIER: That's --
MR. AIKEN: Would I also be correct that the OM&A for 2012 and 2013 would be roughly $600,000 higher, if this change in accounting had taken place before those years?
MS. COLLIER: Can you just repeat the second half of your question, Mr. Aiken?
MR. AIKEN: I will repeat the whole thing.
MS. COLLIER: The first part I can confirm, yes.
MR. AIKEN: Okay. So would I be correct that the OM&A for 2012 and 2013 would have been about $600,000 higher if this accounting change had taken place prior to 2012?
MS. COLLIER: I don't think I can confirm that. I don't know that the numbers were identical in '12 and '13 to the '14 number.
MR. AIKEN: Okay, but would they be comparable?
MS. COLLIER: I believe they're comparable, yes.
MR. AIKEN: Okay. My next question is on 4-Energy Probe-35, and this has to do with the Ontario apprenticeship tax credit.
There are two tables provided in this response. The

first one is table 4.1 revised and in that one, the 2016 test year Ontario apprenticeship tax credit claim, it shows 110,000.

And in table 4.3 revised for 2016, it is showed as 160,000.

And I understand the difference between the two, but my question is basically on Table 4.3 revised, how many of the five apprentice positions shown for 2015 were in place before the April 23rd, 2015 budget?

MR. GRUE: I don't have that with me, so I would have to get that for you.

MR. AIKEN: Would you undertake to provide that?

MR. GRUE: Certainly.

MS. DJURDJEVIC: That will be Undertaking JTC2.37.

UNDERTAKING NO. JTC2.37: TO PROVIDE, ON TABLE 4.3 REVISED, HOW MANY OF THE FIVE APPRENTICE POSITIONS SHOWN FOR 2015 WERE IN PLACE BEFORE THE APRIL 23RD, 2015 BUDGET.

MR. AIKEN: And my last question is on CCC Interrogatory No. 49. In Table 1 there you show the total regulatory costs associated with this custom IR application being $757,000, and in the paragraph above it, it says that these costs were incurred in 2014 and forecast for 2015.

Can you break out the $757,000 into the amounts for both years? How much you expensed in 2014 and how much --

MS. COLLIER: Yes.

MR. AIKEN: -- how much is left in 2015?

MS. COLLIER: Yes.

MS. DJURDJEVIC: That will be Undertaking JTC2.38.

UNDERTAKING NO. JTC2.38: WITH REFERENCE TO CCC NO. 49, TO BREAK OUT THE $757,000 INTO THE AMOUNTS FOR BOTH YEARS, HOW MUCH WAS EXPENSED IN 2014 AND HOW MUCH IS LEFT IN 2015

MR. AIKEN: Those are my questions, thank you.

QUESTIONS BY MR. GARNER:

MR. GARNER: You'll be happy to know that Mr. Aiken has taken a couple of my questions, including that one, so I really only have, I think, two left on this category. One is in response to VECC No. 31, and this -- just to understand the EDA fees that -- that go from 2014, from 106,000 to -- in your budget going forward to 118,000, which my back-of-the-envelope calculation says that's about 11 percent increase.

How did you forecast your increase for the EDA fees? They seem inordinate compared to your other increases for standard items.

MS. COLLIER: I don't -- I don't have the detail. I don't know if we have the estimate or it's an increase, so I'll have to get that to you.

MS. DJURDJEVIC: It will be Undertaking JTC2.39.

MR. GARNER: I don't need an undertaking. Thank you.

MS. DJURDJEVIC: Okay. Strike that.

MR. GARNER: The next question, you actually answered it in two places, but I think the best place to look at the responses -- it was in response to bad debt, and you've got a -- you were asked this question at Consumers' Council of

Canada No. 39. I also believe that SIA asked you a similar question, but the -- they were both asking about how you calculated your bad-debt component for OM&A, and in your response you say, "The percentage..." -- this is in the CCC No. 39 response. You say:

"The percentage used for budget assumption days stays flat at 2 percent."

I was just unclear how you actually calculated the bad-debt forecast. Are you using an average of past periods or are you just -- are you taking a percentage of revenues? Can you clarify to me how you are actually doing the forecast?

MS. COLLIER: It is a percentage of revenues.

MR. GARNER: I see. And it stays -- you are always doing it at 2 percent, you say.

MS. COLLIER: It is actually 0.2.

MR. GARNER: Oh, 0.2. Thank you. Yeah.

Okay. Thank you. And those are my only questions.

MS. DJURDJEVIC: Who is next in line?

QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: I don't actually have as many questions as I thought. I know you will be disappointed.

Let me start with CCC No. 42. You were asked in CCC No. 42 your savings for project management, which we heard you talk about earlier, are $400,000 a year. Where are they in the revenue requirement? And do I take your answer to be we didn't include them in the revenue requirement because we are simply doing more work?

MR. BENNETT: Correct.

MR. SHEPHERD: Is there a point at which productivity savings actually reduce rates?

MR. BENNETT: We would hope so. The productivity that we were talking about here was in the project management of our capital program, and so they -- the productivity improvement goes to filling that gap that we talked about between the need and the actual budget, so it's not, I would suggest, impacting OM&A particularly, except for the fact that perhaps I can get the work done with the same number of people or less people, so there's, I would suggest, productivity improvements which focus on controlling or reducing OM&A expense.

On my side of the house we focus a lot on productivity improvements in delivering capital program, whether it is in the planning of the program or the execution of the program. Most of those savings go to that gap.

MR. SHEPHERD: So this 400,000 is not an OM&A savings? The reason I ask is that it's in Exhibit D, but it's a capital savings?

MR. BENNETT: It's a -- yes, well, it was identified as part of our process, as I understand it, as a savings in the project management side of the house, productivity improvement on the project management side of the house.

MR. SHEPHERD: But these are capitalized dollars.

MR. BENNETT: Exactly.

MR. SHEPHERD: Okay, thanks.

The next question is with respect to CCC No. 45, and you say -- you were asked whether there was an RFP, and when you went out to PSE to get PSE to do this work, the econometrics work, and your answer is you didn't have an RFP because PSE's field of expertise is econometrics, which is a distinct and specialized field.

Are you suggesting that they are the only ones who could have done it? The reason I ask is I know at least a dozen firms that do this, at least.

MS. JONES: No, I don't think that's what we're suggesting, and to be -- I was not involved in the process. However, the decision was made to engage the services of PSE.

MR. SHEPHERD: No, we know that. We're asking why? It's going to cost you a couple hundred thousand dollars in the end; right?

MS. COLLIER: Yes, I mean, I think the decision was made due to one of timing and whatnot, so I'm not sure the distinct and specialized field needs to be there. I think we agree with you, there is a number of qualified people that could have -- that could have done that work.

MR. SHEPHERD: Okay, thank you.

My next question is with respect to the attachment to that interrogatory response, which is the -- I guess this is the PSE proposal, right? Is that right?

MR. BENNETT: I have it here.

MR. SHEPHERD: I asked the question, this is the PSE proposal; is that right?

MS. JONES: That's correct.

MR. SHEPHERD: Okay, so on page 2, which is actually the fourth page, but it is page 2, under section 1.2 it says, in the middle of the first bullet:

> "This evaluation will be conducted beginning with the current PSE total cost econometric model found in the Toronto Hydro custom IR proceeding."

So my question is: Which of the models in that proceeding is the one that was actually used in your study? Because Mr. Fenrick started with one, and then he had to correct a bunch of stuff over the course of the proceeding, so the end model was quite different than the beginning model.

And the question is: Which one did he end up applying to your analysis?

MS. JONES: The model that -- are you asking for a name, or a version, or --

MR. SHEPHERD: Well, or a date. I don't think he actually had formal version control of his models during the course of the Toronto Hydro case.

A number of things -- there was back and forth, because there were two econometricians fighting with each other, right. And so they kept changing their models back and forth to try to get consistent with each other.

And the question is did you end up with the final model in that proceeding, or some earlier version?

I know you will have to undertake to ask him.

MS. JONES: I believe I will have to undertake, because I believe it is the final, but subject to check.

MS. DJURJEVIC: That will be JTC2.39.

UNDERTAKING NO. JTC2.39: TO ADVISE WHICH ECONOMETRIC MODEL MR. FENRICK USED IN THE HYDRO OTTAWA STUDY

MR. SHEPHERD: The next is on Energy Probe 27 -- and you may have answered this somewhere and I just haven't seen it; there is a lot of material. But I'm going to ask you in any case.

You have a -- you changed your table 3 from your Q2 forecast for 2014 to your 2014 actuals, and the figure I'm concerned with here is the FTEs. Your FTEs are 5.8 lower in the actuals than the original forecast.

The reason that's important is because you made a commitment not to increase your FTEs over time, right? You said you're going to cap our FTEs at 226.7, right?

MS. COLLIER: Yes.

MR. SHEPHERD: All right. So this reduction from 627.8 to 622, did that happen because of management actions to control FTEs, or did that happen because there were more vacancies and it took longer to fill things than you expected, that sort of stuff?

MS. COLLIER: So the strategy to maintain a flat head count throughout the course of this custom IR from 2016 to 2020, recognizing that we will have to hire in the trades, is to find productivity initiatives throughout, you know, the other support functions.

So that process has been ongoing at Hydro Ottawa for certainly the past year in a pretty big way.

So at the end of '14, it was decided that we did have

-- there was a number of support positions -- actually, I think a number of them came from my group in finance as an example, that we decided just to eliminate the position and not just reserve it to a future trade.

So that is the reduction you are seeing from the forecast to the actual.

MR. SHEPHERD: So it was an active decision to cut FTEs as opposed to --

MS. COLLIER: That's correct, that's correct.

MR. SHEPHERD: -- just by chance.

MS. COLLIER: That's correct.

MR. SHEPHERD: Excellent. And did you resist? Normally line management resists, right?

MS. COLLIER: Line management maybe; the director of finance probably can. No, I actively supported -- I actively supported the project. I was the first one to go through.

MR. SHEPHERD: Then my next question is with respect to SEC-17, and my question is a fairly simple one.

This came up in the Toronto case, which is the reason why we're pursuing it here; the same problem related to the same evidence. Your starting point in the PSE comparison to the benchmark, to the US benchmark is -- you start out way lower in cost than the benchmark, right? Like 50 percent lower, 50 percent below benchmark.

MS. JONES: That's my understanding.

MR. SHEPHERD: Do you know why that is?

MS. JONES: I do not. I will have to undertake to provide that for you.

MR. BENNETT: Are you talking about in 2002? Is that the --

MR. SHEPHERD: Yes, the starting point of the analysis.

MR. BENNETT: Although I don't have specifically what they did and how they did it, I can say going back to 2002 -- which was shortly after the change in the industry and the amalgamation of the utilities -- the former utilities in Ottawa hadn't had a rate increase for seven years prior to amalgamation. In fact, their first actual increase in distribution rates was in 2006.

We, rightly or wrongly in our old world took great pride in being low cost utilities. So in fact, at that market opening, Ottawa was the lowest cost utilities in the province, the lowest OM&A and a much smaller capital program than we are talking about today.

So I am expecting that the 50 is because we were not spending a lot of money in 2002.

MR. SHEPHERD: When did the amalgamation take place?

MR. BENNETT: In 2000.

MR. SHEPHERD: So the savings hadn't really -- the cost savings hadn't really fully kicked-in until 2004 or 2005; is that fair?

MR. BENNETT: I don't know if there ever were cost savings associated with it.

So to give you an idea, at amalgamation, the former Ottawa utility, we had 315 employees. Three years prior to that, we had 425. So all the utilities were very lean, because the only way in our old utility world to save money was to reduce head count, really.

So the head counts were very low at amalgamation. I think we went into amalgamation with something like 460 people in total in the utility. So although there was lots of discussion about the savings that would take place and the synergy of the integration of these utilities, the real integration probably didn't take place until 2005, once we all got on the same SCADA system, and the same practices and processes for our construction, and that sort of thing.

MR. SHEPHERD: Uh-hmm, is it fair to say that in 2002, the amalgamated Hydro Ottawa was too lean; it didn't have enough people and it was under-invested in its assets; is that fair?

MR. BENNETT: That would be my assessment, yes.

MR. SHEPHERD: Is that a problem that the company has identified internally? You must have talked about it, right?

MR. BENNETT: Yes, and I think that's when we got to 2005, putting together a rate application, our first rate application, that was an area of concern and an area of priority for us at the time.

MR. SHEPHERD: Did the company ever do an analysis? Like utility companies often, when they got a big problem like that -- that's a very big problem. If you are under-invested, that's a big problem.

Utility companies often will commission either an external or an internal report on that problem to try to assess how real it is, what the possible solutions are, et cetera.

Was that ever done that you know of?

MR. BENNETT: So I mean there are two items. The under-investing; each of the utilities had plans, if you like, for capital investment in the old service territories which we carried over after amalgamation.

But to give you an idea, the asset planning group after amalgamation was sort of three people -- three veteran people, but three people -- and we basically administered those plans and, of course you didn't have to do what you have to do today from an asset management point of view, and from a documentation point of view, and all of that sort of thing.

The issue of real concern, I guess, for us at the time was our OM&A costs were very low, and there was no way to do anything about that, in the sense that as your costs are going up, the costs were fixed at that low point that happened at amalgamation.

MR. SHEPHERD: Well, then you had a freeze, so you don't have any more money.

MR. BENNETT: That's right. So that was the challenge for us, I guess, really in those first number of years was we didn't -- well, luckily the city didn't ask us for a large revenue chunk. We didn't generate a large revenue chunk. It was to do the best you could with what you got.

MR. SHEPHERD: Did maintenance suffer?

MR. BENNETT: Maintenance, we weren't as aggressive probably in our maintenance and inspection as we would be today. We were relying on the knowledge and experience of the individuals who'd been around for a long period of time to identify what they felt were the major areas of concern and needed addressing.

MR. SHEPHERD: So was your maintenance then significantly more reactive and less proactive than it is today?

MR. BENNETT: I would say it wasn't nearly as planned or organized. It was based on the knowledge and experience of the individuals in the old organizations.

MR. SHEPHERD: So let me circle back to the question I was really driving at. That is, did anybody ever do an analysis -- whether in 2002 or in 2007 or '8 -- of the level of under-investment and the -- the low starting point and what you had to do to address it?

MR. BENNETT: Not to my knowledge did we do an actual evaluation or study of that, no.

MR. SHEPHERD: But it was sort of generally well-known that you had that problem and you had to deal with it?

MR. BENNETT: Yes.

MR. SHEPHERD: Thank you.

So am I right in understanding then that to the extent that your costs are going up at a faster rate than the benchmark, the U.S. benchmark, that your view is that the reason for that is that they were too low in the first place and you're catching up; is that reasonable?

MR. BENNETT: I haven't gone through the PSE analysis, but I would say that when you look at it from a percentage point of view, that would make sense.

MR. SHEPHERD: I'm looking at VECC No. 4, and although it's in the (b) category, I think it's actually a (d) question.

You were asked about productive time ratios, which I assume you apply to both capitalized and operating employees; right?

MR. BENNETT: Yes, so maybe before I say yes, would you say that again?

MR. SHEPHERD: Your analysis of productive time ratios doesn't just include capitalized employee time, it includes capital and operating employee time.

MR. BENNETT: Yes, so the productive time ratio is basically the amount of time, the percentage of the time, that the staff are available to be productive, so it excludes holidays, sick leave, training, major training days, that type of thing.

MR. SHEPHERD: Yes, understood. And so you have -- you have shown somewhere between 69 and 71 percent over the last four years, and I take it that the 2015 number is not really indicative, because it doesn't include the summer?

MR. BENNETT: That's correct.

MR. SHEPHERD: But my question is: What assumption have you made in your forward budgets, both capital and operating, as to productive time? What level have you assumed?

MR. BENNETT: My understanding is it's 72 percent.

MR. SHEPHERD: Excellent. Do you know what actions you have to take to get there?

MR. BENNETT: Yes, and we --

MR. SHEPHERD: A plan?

MR. BENNETT: -- and we're working on some of the actions, so some of the things that were identified in the productivity discussion in the application, for example, for the trade-staff training, there is extensive required training for the trade staff to keep them up to certification, et cetera. We were doing that in a, I'll call it a comprehensive and organized fashion at a training centre, so taking them out of the work force, sending them to the training centre in groups to do the training in an organized fashion.

What we identified was that that was productive for doing the training, but it wasn't productive for doing the work, so we have reorganized, where possible, and to be as effective as possible to do the training at their work location to set up training that can be done on rainy days, for example, so rather than schedule on a nice day, wait for a day that's not going to be particularly productive, and execute the training on those days, that type of thing.

MR. SHEPHERD: Do your employees report to job sites or to a central location and go to the job site?

MR. BENNETT: Primarily, to -- we have four different work locations primarily that they report to. Some of employees station, some of the stations projects, they report right to the job site. There are some large projects, pole replacement projects, where they report right to the job site, but primarily they report to one of the four operational centres.

MR. SHEPHERD: So then that facilitates putting -- doing training at the time, because you can say, Hey, it's a bad day. We are not going to go to the job site; we are going to do training today.

MR. BENNETT: Absolutely.

MR. SHEPHERD: Now, a lot of utilities are shifting away from that central reporting approach and going to a job site reporting using a work management tool. You're planning to buy a work management tool; right?

MR. BENNETT: Correct.

MR. SHEPHERD: Is that going to then change your approach to where the utilities -- the employees report?

MR. BENNETT: yes and no. The work management tool will have its largest impact on quick-hit jobs, so we have, right now -- in our outage management system we have, I'll call it job scheduling or job tracking, but it's not an active job scheduling or job tracking, so the jobs are identified and dispatched to the work crews via that, but the tracking is basically they report, I completed the job, so it doesn't reschedule if the job didn't get done or anything like that.

We also have a lot of work that we do on appointments, so whether it is a disconnect, reconnect, or a new customer or a visit, appointment visit -- type visit, so what we're going to do with the work force management tool is we're going to integrate that activity, the appointments are going to be done all through the work force management tool, so they will be scheduled, their routes will be identified, if there is work dropped or work added that will be automatically adjusted and dropped on the work truck, but as well, a lot of the OMS jobs, inspection jobs, quick-hit repair jobs, those types of things, can be dropped on those vehicles as well, so we'll be able to take the work out of the OMS, drop it on those vehicles, track the activity of those trucks, et cetera.

For larger --

MR. SHEPHERD: Sorry, this is going to use mobile devices, like, they'll get a schedule on their cell phone?

MR. BENNETT: Exactly, yes. For the --

MR. SHEPHERD: And you can change it in real-time?

MR. BENNETT: Yes, yes.

MR. SHEPHERD: So if you have a truck that has -- that does certain types of work and so has the equipment for certain types of work, you can say, No, you're not going there, you're going there now, because it is more urgent.

MR. BENNETT: Exactly, yes, but for the larger jobs, although they can still be dispatched and all that sort of thing, if there is an emergency, typically we track them as part of an overall capital program management, and then there's -- so they are more than one-day, typically, jobs, and if it was a large job, which is -- I'll call it multi-week job, where it makes sense for the guys to report right to site, then we would look at doing that and scheduling it that way.

MR. SHEPHERD: What's the timing for the work management program?

MR. BENNETT: It should be in by the end of the year.

MR. SHEPHERD: Are you integrating that with your contractors too, or are the contractors still going to be a separate system of some sort?

MR. BENNETT: Well, the contractors work through that same group. Will they be integrated right away in the work management tool? I'm not sure about that. I'm not positive about that. They typically are not doing quick-hit work, though, they are typically doing big-job, big-project work.

MR. SHEPHERD: Do we have an estimate for the savings from the work management tool? And the reason I ask is because some of the utilities -- larger utilities that have implemented that have had really significant savings, millions of dollars a year. Do you have any estimates?

MR. BENNETT: We have estimates that we have from when we did the business case, et cetera, yes.

MR. SHEPHERD: Is it in the evidence somewhere? If the answer is yes, I can find it. I just...

MR. BENNETT: We'll look. I think it is, but we'll look and confirm.

MR. SHEPHERD: And that's all my questions.

MS. DJURDJEVIC: We have some questions from Board

Staff.

QUESTIONS BY MR. CLARK:

MR. CLARK: I will pick up on what Mr. Shepherd requested with respect to savings, because we are interested in savings and productivity and getting a handle on what's actually in your 2016 to 2020 budgets.

And I think if we could go to Staff 22, we'll start there, we'll pick up with the labour management.

In this interrogatory Staff identified where we were looking for cost reductions, and that would be in the areas of increased efficiency and productivity for salaries and wages which we just talked about, underground locates and bad debt.

Is there in the evidence any estimate of what your savings would be, or any of your productivity gains, because I was unable to find anything?

MR. BENNETT: In each of the categories, you're looking for a number? Is that the --

MS. CLARK: Yes, and I can easily expand that to vegetation management and so on.

Have you, in your evidence, a table of expected savings or productivity gains from what you're doing with your operating, maintenance, and administration costs?

MS. COLLIER: No, it's not as clear-cut as that. As we outlined in our approach to the OM&A envelope, especially for 2017 to 2020, the formulaic adjustment results in OM&A increasing by 3.245 percent; our historical OM&A has grown by 5.5 percent.

So there is a gap there which -- this is largely where these savings will come from. We have to have a way to be able to operate within the envelope that we've requested. So a lot of that is coming from all of these productivity initiatives that are underway at Hydro Ottawa; flat head count, underground locates, all the work we're doing on bad debts, all the stuff with mobile workforce management.

So it is very difficult to kind of pinpoint each one with dollar values. I mean, it's all part and parcel of how we're going to achieve those envelopes.

MS. CLARK: But have you not looked at it from a cost benefit basis, each of these products, such as for bad debts or for locates?

MS. COLLIER: Sure. I mean, in our mind, they all provide more benefit than cost, if that's the question.

MS. CLARK: And are those quantifiable? Can you not bring those forward?

MS. COLLIER: For some of them we can, I suppose. It's just -- it's very difficult to bring all of them forward.

MS. CLARK: When you say very difficult, do you mean it's going to take weeks, months, or -- we'd like to get some hard numbers.

MS. COLLIER: So the first thing I would point you to is in response to Board Staff question number 7, page 6, table 1.

The productivity that is shown on the bottom of that table, ranging from 1.4 million in 2017 to 1.9 million in

2020, is definitely a hard number, and we plan to achieve it by all the initiative that we've described in schedule D.

MR. CLARK: But that's based on your formula. That's not doing an actual analysis saying this is what we expect to save.

I see what you have here, and I’ve looked at it. But to me, that's not saying, well, we're putting these in place for bad -- this program in place for bad debt, and we expect to see bad debt reduced by X.

MS. COLLIER: I mean, it's hard to predict. In something like bad debts, it is very hard to predict how effective each program will be. We are seeing -- we are seeing a trend in the right direction currently.

Some of that, I believe, has to do with our monthly billing but -- again, it's very hard to pinpoint, you know, each little program and what the end result will be.

Something like mobile work force management, as Mr. Bennett has described, there was an analysis and there was some savings, and I believe they're mentioned in the productivity -- or in the DSP.

Do you want to give the reference?

MR. BENNETT: Sorry, just going back to Jay’s thing, in the DSP material investments, page 382 of 385, it talks about the benefits of the work force management tool, including projected savings and so on.

MR. CLARK: Now you have apprentices that you have hired. Will you be hiring more apprentices to replace people that are retiring?

MS. COLLIER: Yes.

MR. CLARK: So that's all within your 622.7 head cap?

MS. COLLIER: That's correct. So the plan -- Obviously, for the apprentices, eventually they will replace people that are retiring. The problem is in the five years that they’re being trained to replace the retiree.

Our strategy will be to reduce head count in other essentially support areas of the business to facilitate a flat head count from 2014 to 2020.

MR. CLARK: Thank you.

MS. DJURJEVIC: Just keeping an eye on the time and wondering how much longer people expect to be, whether we need a break or whether we want to stay later -- any comments?

MR. SHEPHERD: I have three more questions.

MS. DJURJEVIC: Okay.

MR. GARNER: I have very few, maybe as little as one, depending on how Mr. Aiken goes through cost of capital.

MR. AIKEN: I have probably seven or eight questions in total left.

MR. SHEPHERD: Can I suggest that we take a break then? It looks like we'll be finished in less than an hour.

MS. DJURJEVIC: Is ten minutes enough? We’ll come back at 3:15.

MR. SHEPHERD: Okay.

--- Recess taken at 3:04 p.m.

--- On resuming at 3:22 p.m.

MS. DJURDJEVIC: Welcome back, everybody.

We will proceed with Chapter 5, cost of capital, and Mr. Aiken, I believe you're first with questioning.

QUESTIONS ON EXHIBIT E, CHAPTER 5, COST OF CAPITAL

QUESTIONS BY MR. AIKEN:

MR. AIKEN: Thank you. My first question is on the response to 5-Energy Probe-41, but we'll also need to see Appendix 2-OB, I think it is. That is in the Chapter 5 evidence.

And specifically in Appendix 2-OB I am looking at the table of the long-term debt that is shown for 2018.

The response to Energy Probe 41 indicates that 30 million was drawn on June 25th and the other 25 million is forecast to be drawn in the fourth quarter of 2015, but there were no rates shown. So am I correct that the rates shown in Appendix 2-OB for the 30 million is 2.724 percent and for the 25 million is still a forecast of 3.769 percent?

MR. GRUE: So because we did a bond issuance in this past February, there were two tranches in that, and for ten years and 30 years, so we're prorating that money down to HOL as it's required, so the total draw of 55 million for the year will use those prorated amounts of 2.724, as you say, in the 3.769, based on the total amount.

MR. AIKEN: Okay. The next question is on Staff 26. In Appendix 2-OB the issuances for 2016, '17, and '18 have interest rates of 5.37 percent, 5.97 percent, and 6.27 percent respectively.

I'm wondering how those numbers relate to the figures provided in the response to Staff 26 on the table that follows the long-term forecast from Consensus Economics. There is a little table at the top of the following page that shows the forecast yield for Hydro Ottawa for ten-year and 30-year issuances, and your forecast numbers lie between these, and I'm just wondering what kind of weighting you are providing for ten-year and 30-year loans in those years?

Now, further on in that interrogatory --

MR. GRUE: So you are on OEB 26?

MR. AIKEN: Yes.

MR. GRUE: Part...

MR. AIKEN: Well, it is not labelled. I'm just waiting for it to come up. There it is there. Go back to the top table, right there. How those numbers relate to the forecast that you've built into Appendix 2-OB, and the weighting of ten- and 30-year debt.

MR. GRUE: I was waiting for it. This document was actually an old working document that was filed in error and shouldn't be in here. It is a duplication of the Consensus forecast numbers on the bottom, and the top numbers, as I say, was an early draft of numbers that were actually never used ultimately in the process, so unfortunately, I apologize, this actually shouldn't have been submitted.

MR. AIKEN: Okay, well, then this ties in, I guess, to the undertaking I'm going to ask for you, and that is: Can you provide an update to Appendix 2-OB that reflects the response to Energy Probe 41, so the actual issuance and the forecast for 2015, as well as the update for the April consensus forecast that is found in the response to Energy Probe 40?

And maybe you can add on to that a table similar to what was filed in error that shows the ten-year and the 30-year, and then how you get to your weighted average or whatever it is, based on the April consensus. Because your evidence doesn't indicate whether your debt issuances in 2006 beyond are all 30-year or ten-year or I suspect a combination of both.

MR. GRUE: The forecast that we've used in the evidence is based on the OEB 2009 report formula, so it uses a ten-year Consensus forecast but adds on the spreads to get to the 30-year.

MR. AIKEN: Yeah. But what I'm saying is in Appendix 2-OB, when I look at the 2018 table, for example, and I see the issuances in 2016, '17, and '18 under the -- in the term "column" it just says "deemed long-term". It doesn't say 30 years, ten years, like you've broken out 2015.

MR. GRUE: Yes, so the '15 is the actuals that we did, so that's the embedded. Then we did two tranches, as I say, in February of ten and 30 years. Ones for '16, '17, and '18 are based on the, say, the formula, which are basically 30 years.

MR. AIKEN: Okay. So those are all 30-year issuances?
MR. GRUE: That's correct.
MR. AIKEN: Okay. So if you could just update Appendix 2-OB to reflect the responses to Energy Probe 40 and 41.
MS. DJURDJEVIC: That will be Undertaking JTC2.40.
UNDERTAKING NO. JTC2.40: TO UPDATE APPENDIX 2-OB TO REFLECT THE RESPONSES TO ENERGY PROBE 40 AND 41.
MR. AIKEN: That's all my questions for Exhibit E or 5, but while I have the microphone I am going to give you one for Exhibit F, which is the review-requirement calculation.
This is basically Energy Probe 43. My request is that, if necessary, please provide an updated response to the question, including live Excel spreadsheets, to reflect any further changes made as a result of the technical-conference questions, so this is in reference to the revenue-requirement work forms.
MS. BARRIE: So when you say updated per the technical conference, because one of the earlier ones have asked for me to update a forecast, are you wanting me to update that forecast through to the revenue requirement --
MR. AIKEN: Which forecast did I ask you to update?
MS. BARRIE: I think it was you. Maybe it was -- sorry, maybe I have the wrong person. I thought -- with the new economic trend for the Conference Board of Canada?
MR. AIKEN: Oh, okay, yeah, that was me. But, yeah, no, any changes that you're proposing to accept.

MS. BARRIE: Okay. I just wanted to be clear on that.

MR. AIKEN: Just like you did through the interrogatory process. If there is anything beyond that that you're proposing to change as a result of the technical-conference questions, update the revenue-requirement work forms.

MS. BARRIE: Okay.

MR. AIKEN: Okay?

MS. DJURDJEVIC: That will be JTC2.41.

UNDERTAKING NO. JTC2.41: IF THERE IS ANYTHING BEYOND THAT IS BEING PROPOSED TO CHANGE AS A RESULT OF THE TECHNICAL-CONFERENCE QUESTIONS, UPDATE THE REVENUE-REQUIREMENT WORK FORMS.

MR. AIKEN: Sorry, I didn't hear. Did we get an undertaking number for the Appendix 2-OB?

MS. DJURDJEVIC: No, I'm pretty sure it's JTC2.41... Okay.

MR. AIKEN: Those are my questions on these issues.

MS. DJURDJEVIC: Okay. Mr. Garner?

MR. GARNER: I don't have any questions on the cost-of-capital exhibit, or any left, anyway.

MS. DJURDJEVIC: Mr. Shepherd?

MR. SHEPHERD: I don't have any questions left on cost of capital.

MS. DJURDJEVIC: Okay. OEB Staff?

QUESTIONS BY MR. CLARK:

MR. CLARK: Excuse me, I just have one: You just finished saying you are forecasting debt to be 30 years into the future for 2017, 2018, and so on. Would you not have any ten-year debt in there, considering some of your investments have a life of ten years or less, such as technology?

MR. GRUE: You are correct, in that, you know, we look at the markets, and as we just did in February, we split the issuance between long and short, if you want to call it ten and 30 years. We are not a regular issuer, so I know someone like Hydro One has a set program that they do five, ten, and 30s every year, and they prorate it based on a policy. We don't have that, so we look at basically what the market's available to us at that time. In particular, in the last couple of years, the loans have been very attractive rates, so we certainly prefer to lock that in if that's available to ourselves, and most of our assets are long term so we try to match those up.

But you're right. We will look at the market and if it is not particularly attractive at that time, and we do have 10s obviously as we just issued, so --

MR. CLARK: In the end, it is the rate that drives it.

MR. GRUE: Definitely. If you look at sub 4 for long term, we definitely look at that because that’s a long-haul that’s obviously going to keep rates down for the interest cost.

MR. CLARK: Thank you.

MS. DJURJEVIC: Does anybody have questions on chapter 9, deferral and variance accounts? I see some head nodding. Okay, we'll go around and start again with Mr.

Aiken. Do you have anything?

CHAPTER 9, DEFERRAL AND VARIANCE ACCOUNTS

QUESTIONS BY MR. AIKEN:

MR. AIKEN: Sure. The first one is in the response to Energy Probe 51. I just want to make sure that I have the numbers for the facilities implementation plan right.

My understanding is that the total cost is 92.3 million, of which 19 million is for land and is included in rate base, 7.1 million of capital expenditures in 2011 through 2015, and 66.2 million in 2016 through 2018; is that correct?

MS. COLLIER: Yes.

MR. AIKEN: Has the 7.1 million of capital expenditures in 2011 through 2015, has that amount been included in rate base, or does it reside in CWIP as of the beginning of 2016?

MS. COLLIER: CWIP.

MR. AIKEN: And I want to confirm that based on your response to part (d) of that question, that there would be no interest calculated on the balance in the account prior to the assets being placed into service, but you would include capitalized interest in the balance.

MS. COLLIER: That's correct.

MR. AIKEN: Okay. Next question is on Energy Probe 52 and School's 26. The response to part (c) of Energy Probe 52 indicates that Hydro Ottawa is withdrawing its request for a variance account associated with the cost associated with the transition to monthly billing.

But the question asked for the cost associated with monthly billing in 2014 through 2016. So can you provide what those incremental costs were that are included in each of 2014, 2015 and 2016 associated with monthly billing for those customers that were previously billed bimonthly?

MS. COLLIER: Sorry, Mr. Aiken, can you repeat your request?

MR. AIKEN: Yes. I'm looking for your incremental OM&A costs in 2014, 2015, and 2016 associated with moving to monthly billing for those customers that were previously billed on a bimonthly basis.

In other words, what was your incremental cost in 2014, what's your incremental cost in 2015 of monthly billing for the residential and the majority of the GS under 50 customers.

MS. COLLIER: I think we can undertake to provide that -- or an estimate, a high level estimate.

MR. AIKEN: An estimate is fine.

MS. COLLIER: A high-level estimate, yes, sure.

MS. DJURJEVIC: Okay, that will an undertaking JTC2.42.

UNDERTAKING NO. JTC2.42: TO CALCULATE THE INCREMENTAL COST IN 2015 OF MONTHLY BILLING FOR THE RESIDENTIAL AND THE MAJORITY OF THE GS UNDER 50 CUSTOMERS

MR. AIKEN: Just as a -- this relates to Schools 26, which deals with the same issue but from a different point of view.

What benefits or cost reductions have been included with your forecast associated with moving to monthly billing? In other words, is there a reduction in bad debt or collection expense?

I don't need numbers, just what areas.

MS. COLLIER: So for sure we're seeing bad debt go down, and we're seeing collection expense go down.

We're also doing every effort we can to reduce the cost of monthly billing, in terms of bill production and postage, by pushing as many customers as we can possibly can to e-billing. We have had great success with that.

I believe that's in one of the IR responses, that we have essentially avoided costs of close to 2 million since we implemented monthly billing, as a result of the e-billing initiative.

So those numbers are in the application.

MR. AIKEN: Okay. My next question is a follow-up on the response to CCC No. 55, and this had to do with the market value of the three facilities that are being replaced.

The response basically indicates that you don't have the market value of any of these properties at this time, and you've commissioned appraisals.

My question is -- you must have some sort of best guess as to what the estimated value of those properties are.

MS. COLLIER: We do have appraisals. We have had them updated for a number of years now.

So, yes, we certainly do have the estimated market value for those.

MR. AIKEN: Can you provide those?

MS. COLLIER: They would have to be in confidence. We do not want that information publicly to restrict our selling.

MR. AIKEN: That's fine.

MS. DJURJEVIC: That will be JTC2.43.

UNDERTAKING NO. JTC2.43: WITH RESPOECT TO CCC NO. 55, TO ADVISE THE ESTIMATED MARKET VALUE OF THE PROPERTIES BEING REPLACED, AND TO PROVIDE THE FULL APPRAISAL REPORTS

MS. COLLIER: And just to clarify, you just need the numbers from that report?

MR. AIKEN: Yes.

MR. SHEPHERD: Okay, so let me follow-up on that, Randy?

MR. AIKEN: Sure.

MR. SHEPHERD: Why are your appraisals confidential?

MS. COLLIER: We don't want to limit our -- I mean, we want to get the best possible price out there. We don't want to have it on record for any potential buyer what we think buildings are worth. We want to get the maximum value we can for the ratepayers when we sell the buildings.

MR. SHEPHERD: I would have thought that anybody in the industry in Ottawa could figure out what those numbers are. It's not rocket science to do an appraisal of those buildings.

MS. COLLIER: And certainly any buyer would likely do their own appraisal. It's just we don't see the point in handing over ours.

MR. SHEPHERD: Can you, in your undertaking, please provide the full appraisal reports?

MS. COLLIER: It will all be in confidence.

MR. SHEPHERD: That will be your claim.

MS. DJURJEVIC: That's all part of JTC2.43.

MR. AIKEN: My next question relates to the response to Schools number 25. My first question on this is: Can you please confirm that the land and building values for the facilities being replaced in 2018 remain in rate base in 2018, '19 and '20?

And if this cannot be confirmed, please show where in the PP&E continuity schedules we can see the removal of these assets from rate base.

MS. COLLIER: They're still in rate base.

MR. AIKEN: Okay. And then can you confirm that the Y factor proposed by Hydro Ottawa does not reflect the removal of these assets from rate base when they're replaced with the new facilities?

MS. JONES: So in Exhibit A6-1 we've asked for a deferral account to capture the proceeds of sale of existing facilities. We have asked for approval.

MR. AIKEN: Okay. But something like property taxes are still built into your forecast for both sets of facilities in 2018 and '20 beyond?

MS. COLLIER: Well, 2017 to 2020 OM&A is an envelope. We are expecting property taxes to go up for the new facilities, just because they will be higher class rating buildings, but then on the flip side we're expecting reductions in utilities just because they will be much more efficient buildings.

MR. AIKEN: Okay.

MS. COLLIER: So we will manage that within that envelope.

MR. AIKEN: All right. And then my final question, which is also on Schools 25, this talks about the land for the new facilities being added to rate base in the 2012 rate application.

Can you confirm that the forecasted value in the -- in that rate case was $4 million and the actual cost of the land was closer to $7 million?

MS. COLLIER: I'd actually have to look at the evidence from the last rate case, but the total cost of the land in the last rate case was more than 4 million. I believe the 4 million portion was just the amount that we were intending to purchase in '12.

MR. AIKEN: Yeah, that's what I'm talking about, the forecast for purchases of '12 was 4 million, and your actual purchases were 19 million, but 7 million took place in 2012; is that correct? You had 7 million for land in 2012 and another 12 million in 2013, I believe.

MS. COLLIER: Just a second.

So if I can just direct you to the material investment attachment, attachment B-1(a), page 339, it will show that the first -- that the land purchase for the south ops was

6.7 million in 2012.

MR. AIKEN: Okay. Thank you. Those are my questions.

MS. DJURDJEVIC: Mr. Garner, questions on this section?

QUESTIONS BY MR. GARNER:

MR. GARNER: I had -- I think I only have one question. If I can just pull it up. This is in response to VECC interrogatory 58, and it is to do with account 1508. And the question went to $982,000 of IFRS transition costs that are in that account. I was trying to understand the internal staff costs, and I'm not quite sure if my understanding of what's recoverable is different than yours or if what you actually did -- those costs are different than I understand them to be.

So maybe we can just discuss this for one moment.

To give you my understanding, my understanding of the Board's rules are that the only recoverable costs for IFRS transition are those that are incremental; i.e., that you'd have to have hired incremental staff in order to have those costs recoverable. They couldn't be staff that you currently have who are given that assignment.

Do you have that same understanding of those -- is that the type of costs that can be recovered?

MS. COLLIER: We do. In fact, in 2009 I was one of those incremental staff that was hired.

MR. GARNER: Okay. Well, then this will make a good example of whether those costs are recoverable and not say anything of the merit of that hiring, which is, I'm sure, a very good one.

So that means that the response to the IR was all that 982,000 at the time were people who were not -- they were incremental people at Hydro Ottawa. They were not current staff at the time?

MS. COLLIER: That's correct, and I believe some of that cost -- and Ms. Barrie can correct me if I'm wrong -- was also an external consultant. There is some external consultant cost in there.

MR. GARNER: The reason I ask is I thought it was described as internal staff costs, and that's probably what confused me, because if it were internal staff it wouldn't be recoverable.

MS. COLLIER: We just hired an IFRS consultant at one point, which I believe is in that number, so we maybe shouldn't -- we should have added that to the descriptor as well, but subject to check I'll confirm.

MR. GARNER: I don't think you need to. I think if the understanding you are giving me now is that the 982 were not at the time those costs were incurred permanent staff or staff of Ottawa Hydro, then I don't think I have an issue, and so I think we're at that understanding; therefore, I don't --

MS. COLLIER: Our understanding is the same.

MR. GARNER: Okay, thank you.

Is that it?

CONTINUED QUESTIONS BY MR. SHEPHERD:

MR. SHEPHERD: I have a follow-up on that one. Just to -- let's use you as an example, now that you brought it up. You were hired to fill a position that existed only for IFRS; right?

MS. COLLIER: Yes.

MR. SHEPHERD: You are not doing that any more, I assume.

MS. COLLIER: That's correct.

MR. SHEPHERD: So did you replace somebody who left or did you go into another new position which wasn't IFRS?

MS. COLLIER: I went into a different non-IFRS position.

MR. SHEPHERD: Was it new or was it replacing somebody else?

MS. COLLIER: Replacing someone else.

MR. SHEPHERD: Okay. Thank you.

So I have just two questions, I think, although one of them is a little bit complicated, and this is back to SEC number 25.

So when you sell existing land and buildings, first of all, there is two or three that you are going to sell?

MS. COLLIER: Three.

MR. SHEPHERD: Three. So when you sell them, three things happen: First you have a gain -- usually a gain on the land from your original cost to -- your original financial cost, your financial-statement cost, book cost, to what you actually sell the land for; right? And you're proposing to split that with the ratepayers.

MS. COLLIER: Gain or loss on the sale of land, we are proposing to split that with the ratepayers, yes.

MR. SHEPHERD: You are not expecting a loss; right? It's land.

MS. COLLIER: It is land. There is -- these are utility buildings. There is a fair amount of soil contamination on the land, so it's difficult to predict what we'll eventually sell it for, and it's not in prime parts of Ottawa, I can tell you that.

MR. SHEPHERD: Isn't one of them in Nepean?

MS. COLLIER: Yeah, but not prime real estate in Nepean, I don't think.

MR. SHEPHERD: All right. And how long have you had that piece of property?

MS. COLLIER: I believe the Nepean one was purchased in...

MR. BENNETT: I'm guessing mid '50s, but we can confirm.

MS. COLLIER: Yeah, I think it's -- that is all in the 2011 application, how -- what year those buildings were purchased in, so you can certainly look at that there --

MR. SHEPHERD: Yeah, no, I --

MS. COLLIER: -- but I believe it's 1955, mid '50s.

MR. SHEPHERD: The exact year doesn't matter. There is no doubt you are going to make a gain on that land, right? You bought it in 1955. Is there any doubt in your mind that you are going to make a gain on that land?

MS. COLLIER: It is hard to predict how much the remediation cost will be, so --

MR. SHEPHERD: Well, you've done forecasts, right? You tried to assess in the appraisal process what you are going to have to -- what you are going to get for a sale.

MS. COLLIER: Which we've agreed to provide to an undertaking, so you will see the information there.

MR. SHEPHERD: And the land is a grain, right, in all three cases?

MS. COLLIER: Yes.

MR. SHEPHERD: Okay. And so that gain you are proposing to split 50-50.

MS. COLLIER: That's correct.

MR. SHEPHERD: Then -- by the way, is that gain taxable, the land gain?

MR. GRUE: Yes, it is.

MR. SHEPHERD: Is there a rollover for that because you are buying like properties?

MR. GRUE: There is a replacement rule, and it could become part of that depending on the timing of disposing of one and the building of a new one.

The new one would obviously would be built first before you dispose of those. But there is replacement property rule that you could roll that together.

MR. SHEPHERD: And you have a two-year window?

MR. GRUE: Not for this particular case. It is open because it wasn't of unforeseen events.

MR. SHEPHERD: Sorry?

MR. GRUE: So, for instance, we had a station that burnt a few years ago, where you did have a two-year window to rebuild it. Because this here is not an unforeseen event, a force majeure, there is a two-year window restriction on it.

MR. SHEPHERD: So the sale has to happen in the year of the purchase to --

MR. GRUE: No, it could be any time after that.

MR. SHEPHERD: So you are not going to pay tax on this gain, are you?

MR. GRUE: Would there be tax on the gain? It would be part of the calculation of that, as they would -- you have to pay taxes on the gain at the time, and then once you have the -- sorry, I'm mixing it up with the other way around. So it will be rolled-in with part of your capital for that building on your addition for the gain.

MR. SHEPHERD: Sorry, help me there. You --

MR. GRUE: The gain on the land and gain or loss on the buildings can be combined for that replacement property rules --

MR. SHEPHERD: Yes.

MR. GRUE: -- subject to check. I'm in an area that we don't do every day, but I believe that’s the rule.

MR. SHEPHERD: And you pay tax on it, or not?

MR. GRUE: It would be combined with the total sale of the entire properties, and if there is a gain or loss in totality, it would be combined against the -- and reduced the value of the new building in your UCC pool.

MR. SHEPHERD: So you don't pay tax on it. What you do is you reduce your UCC for your new properties, right?

MR. GRUE: That would be what the replacement rules are for, yes.

MR. SHEPHERD: Okay. So assuming they qualify -- and as you look right now, it looks like they qualify for the replacement property rules, right?

MR. GRUE: That's correct.

MR. SHEPHERD: So you are not going it pay tax on these gains because you are going to roll them over and you're going to reduce the UCC out through the new properties. Is that likely the case?

MR. GRUE: Going through the timing, that would be what we anticipate, yes.

MR. SHEPHERD: Right now, you are proposing to have the new building operating in 2017 and 2018, right?

MS. COLLIER: That's correct, but as I mentioned Yesterday, we have experienced some delays with that Schedule, so it won't be those days exactly.

MR. SHEPHERD: Yes, I was actually -- just since you've got that, you had a timetable that you were going to have the award of the RFP for the design/build by June.

MS. COLLIER: Yeah, and those are delays.

MR. SHEPHERD: And I take it that didn’t happen?

MS. COLLIER: Exactly.

MR. SHEPHERD: What's the new date for that?

MS. COLLIER: I believe the new date is to have the RFP issued in the Q4 of this year. I believe the timing is some time in November. This is a once in a generational type investment, so we're trying to make every effort to get it right.

MR. SHEPHERD: So you are currently about a year behind schedule?

MS. COLLIER: That's correct.

MR. SHEPHERD: So, in 2017 and 2018, you have these new buildings come into rate base, and new land -- no, the land is already in rate base, right?

MS. COLLIER: The land is in rate base, and the new buildings are not -- are not going to in rate base. They are going to be going into the Y factor.

MR. SHEPHERD: Well, the Y factor is always the same as rate base. We're paying the same amount, right?

MS. COLLIER: Okay.

MR. SHEPHERD: And that's in 2017 and 2018, and then around that time, let's say 2018 and 2019, you sell the other three properties and you get that cash, right?

MS. COLLIER: Hopefully we can sell them that quickly.

MR. SHEPHERD: And so then with respect to the -- those three pieces of land, you are not going to pay tax on them and whatever gain you have -- you are going to have a gain, and you are going to keep half of it. How are you going to book that?

MS. COLLIER: How are we going to book that in the deferral account?

MR. SHEPHERD: No. In the deferral account, you are going to book half of the gain, right?

MS. COLLIER: Yes.

MR. SHEPHERD: Plus the net book value, right? You have to credit the net book value, too.

MS. COLLIER: For accounting purposes, we'll show the gain or loss on the P&L in the year it's sold. In the deferral account -- I'll pass it over to Ms. Barrie to explain how that's going to work – or in the Y factor account, I should say.

MS. BARRIE: We would put 50 percent of the gain or loss into the deferral account.

MR. SHEPHERD: What about the net book value?

MS. COLLIER: Well, the gain or the loss is after the net book value, right? It is proceeds less the net book value, given your gain or loss.

MR. SHEPHERD: You have the net book value in the rate base right now, right?

MS. COLLIER: It will come out --

MS. BARRIE: Right, so it would come out of rate base.

MR. SHEPHERD: Well, it can't come out of rate base, though, because you are on a five-year rate plan.

So don't you have to include it in the Y factor calculation? We shouldn't be paying for it anymore, right?

MS. BARRIE: Yes, that's correct.

MR. SHEPHERD: So it has to be included in the Y factor calculation?

MS. BARRIE: Yes. Sorry, I thought you were wanting me to move -- I misunderstood how you were trying to move things.

MR. SHEPHERD: But the 50 percent that you are not putting in the Y factor calculation – let’s treat it like a deferral account. You’ll probably end up needing a deferral account for this anyway.

That 50 percent, you are just treating that as a profit that goes to your bottom line, right?

MS. COLLIER: That's correct.

MR. SHEPHERD: Then with respect to the building, in the case of the building, you have -- I'm going to get to the tax side in a second. But on the accounting side, you have a book value of the building, and you're not going to sell it for more than its current value, right -- more than its book value, sorry, because buildings generally don't go up in value, right?

MS. COLLIER: No, they generally don't go up in value. But we've certainly been restricting the amount of capital money going in our buildings for the last ten years, if not the last fifteen years, because this plan has been around that long.

So obviously the net book value of the buildings continue to drop over time, so it's --

MR. SHEPHERD: But a purchaser of these properties are not going to keep the building, right? These buildings are not in good enough shape to keep them --

MS. COLLIER: I can't predict that.

MR. SHEPHERD: Are any of them generic buildings, buildings that you could just use for something else?

MS. COLLIER: I would think they all could be used for something else, depending on the buyer.

MR. SHEPHERD: So what you are proposing is that --

you could lose money on the building, right? The value of the building to the purchaser could be zero?

MS. COLLIER: There could be a gain or a loss on the building, yes.

MR. SHEPHERD: And when you sell the land and building, the normal practice in a sale of land and building is that you allocate between land and building in the agreement, right?

MS. COLLIER: I believe that's the case, yes.

MR. SHEPHERD: And so do you have a plan or any restrictions on how you allocate between land and building?

MS. COLLIER: In the previous undertaking, we will provide you with the appraisal reports. There's some indication of land versus building.

MR. SHEPHERD: The reason why I'm asking this is you are proposing to keep 50 percent of the gain on the land, and give us -- or all of the gain of the building or charge us with all the loss on the building. So it's in your interest to allocate as much as possible to the land and zero to the building.

So I'm asking how are we protected in that?

MS. COLLIER: Obviously, we would have to have a rationale and a basis, and third party support for how we have done that allocation.

MR. SHEPHERD: Now, when you sell the building, you have either recapture or a terminal loss for tax purposes, right? But that will then be rolled into your UCC going forward because of the replacement property rules, right, whether it's he a recapture or a terminal loss?

MR. SCHUCH: So there shouldn't be any recapture or terminal loss in this, because it’s going to go into a Class 1 UCC, which there’s other assets in there, so it won’t clean that account out to have a recapture or terminal loss?

MR. SHEPHERD: I thought buildings were each a separate class.

MR. GRUE: They're class 1.

MR. SHEPHERD: No, but doesn't the Income Tax Act require that if a building is more than $50,000 it has to be treated as a separate class for calculating recapturing terminal loss?

MR. GRUE: I'd have to check that. As I say, most of our -- a lot of our assets were in class 1 before some of the changes over the last few years, and that's where these buildings are still sitting, so I'd have to check on that legislation.

MR. SHEPHERD: That's old. That's from when I was a tax lawyer, and that's a very long time ago, so it may have been changed the other way.

MR. GRUE: I'll have to check that.

MR. SHEPHERD: Well, here's what I'm trying to figure out. If there is a recapture in a tax bill or a terminal loss and a tax saving, how do the ratepayers get credited or charged with that? Is that part of the calculation of the Y factor?

MS. BARRIE: We're treating the new facility and the old facilities separately, so the old facilities would not be part of the Y factor.

MR. SHEPHERD: Well, no, you just said that when you sell the land you are going to credit us with 50 percent plus the net book value, so the old facilities are, in fact, in the calculation of the Y factor, aren't they?

MS. BARRIE: Because of the tax component?

MR. SHEPHERD: No, because how else are you going to give us 50 percent of the gain on the land? You just said you are going to do it through the Y factor; right?

MS. BARRIE: Sorry, I meant the -- repeat the question. Maybe I misunderstood it.

MR. SHEPHERD: In the old buildings -- in the old land and buildings you have the land component, which will be a gain, and the net book value plus 50 percent of the gain you are proposing to credit to the Y factor.

You will also have a tax consequence of the building. And that tax consequence may be a tax increase or a tax decrease. Does that also go into the Y factor?

And then of course there is the third question: What about the building? If you lose money on the building, do I understand that the Y factor would be charged with 100 percent of that loss?

MS. BARRIE: So referring back to A6-1, my confusion earlier is you are using the term "Y factor" in relation to the old facility, so that's why I thought you were combining the two, whereas we are only requesting a Y factor related to the new facilities and requesting a deferral and variance account related to the older facilities, land and building.

MR. SHEPHERD: That's why I asked about it, is because you corrected me when I used "deferral account" and you said, no, Y factor, dealing with the gain on the land. So --

MS. BARRIE: Oh, if I did, I misspoke.

MR. SHEPHERD: So the old facilities deferral account completely.

MS. BARRIE: Deferral account, yes. New facilities, Y factor.

MR. SHEPHERD: So they are separate calculations.

MS. JONES: Correct, page 4 of Exhibit A6-1.

MR. SHEPHERD: And so here's what I'd like you to do if we could, is, you have appraisals for the three properties. Assume that those appraisals are correct and that's what you sell them for. Completely in detail, including the allocation. And assume that the replacement-property rules apply, which I think you've said they probably will.

Can you calculate how much is going to go into the deferral account for -- and with all the details so we can see how it's calculated -- for each of the buildings, how much goes into the deferral account for the sale, how much you keep, and how much is added or subtracted from the UCC of the new buildings, for each of the three buildings; can you do that?

MS. BARRIE: So we can do that under confidentiality, because once again we are bringing in the value of the old -- of the appraisals.

MR. SHEPHERD: No, I understand.

MS. BARRIE: Okay.

MR. SHEPHERD: Or if you prefer, you can use a different assumed sale price, as long as it's roughly comparable. Maybe we can -- it's not --

MS. BARRIE: Well, if it's roughly comparable I might as well use them and then give them confidentially.

MR. SHEPHERD: What I mean is that the ratios are similar, that it's not a number that produces a wonky result.

If the value of a building is 25 million, and you say, We're going to use 28 as the number, and we're not going to tell you how that relates to the actual appraised value, that's fine if you want to do that and put it on the public record. That's great. Or if you want to file it confidentially, that's great too.

MS. BARRIE: Okay.

MR. SHEPHERD: We just want to see how the calculation works and how the two integrate, because obviously with the replacement value rules, the replacement property rules, you can't separate old and new. They are going to be related in some way. Can do you that?

MS. BARRIE: I can do that.

MS. DJURDJEVIC: That will be JTC2.44.

UNDERTAKING NO. JTC2.44: TO CALCULATE HOW MUCH IS GOING TO GO INTO THE DEFERRAL ACCOUNT, WITH ALL THE

DETAILS TO SEE HOW IT IS CALCULATED, FOR EACH OF THE BUILDINGS, HOW MUCH GOES INTO THE DEFERRAL ACCOUNT FOR THE SALE, HOW MUCH IS KEPT, AND HOW MUCH IS ADDED OR SUBTRACTED FROM THE UCC FOR EACH OF THE THREE BUILDINGS.

MR. SHEPHERD: And that's all my questions.

MR. GARNER: Can I just ask a question about the property that's being disposed of? Just so -- as a bit of background, my client will not generally sign confidentiality agreements, so I just want to understand a little bit about the appraisal report. Really just this, is, you said the property may have contamination. Has the property been tested, soil-tested? Has the property got PCB contaminations?

MS. COLLIER: Yes.

MR. GARNER: I see. And might you have to incur remediations costs on the property before its sale?

MS. COLLIER: Yes.

MR. GARNER: Thank you.

MR. SHEPHERD: Well, let me follow up on that. You have a remediation estimate?

MS. COLLIER: That, I believe, is -- I mean, the appraisal report is 100 pages long probably for each building, so there is a lot of that information in there.

MR. SHEPHERD: Is there additional information in the remediation cost outside of the appraisal report, or is that where I'd find it?

MS. COLLIER: I believe that is where you will find it, but I will -- as part of that undertaking I'll ensure that it's included and, if not, to provide you with the information that we do have.

MR. SHEPHERD: Thank you.

MR. CLARK: I'm looking at my notes of last night. I realized yesterday I should have asked a question, and I didn't, and I would like to ask it now, if I may. It has to do with your proposed new charge for FIT and the micro net metering.

Basically you are increasing the charge for microFIT and creating a charge for micro net metering that would be the same as the micro fit charge of $18. And you say that you need to do this because of the fact that you now have energy resource facilities, and I have no idea what energy resource facilities are.

I understand what microFIT facilities are, but could you please describe what energy resource facilities are?

MR. BENNETT: Storage.

MR. CLARK: Storage?

MR. BENNETT: That type of thing, yes.

MR. CLARK: Okay. So it would be -- independent companies will be wanting to create their own storage, and you will be metering and monitoring the quality of the power?

MR. BENNETT: Yes.

MR. CLARK: Do you anticipate any -- do you anticipate the services are going to be the same for managing -- or -- yes, managing the building for the storage, as well as for micro fit? It's the same kind of meter, same type of technology?

MR. BENNETT: At this point that's our anticipation, so it is basically based on the micro fit information, but we have had requests, we have some requests now for storage type installations and that type of thing, so it was really just to extend it to those types of installations.

MR. CLARK: Okay, thanks very much.

PROCEDURAL MATTERS:

MS. DJURDJEVIC: Are there any other matters? Okay. Can we agree on a time for providing responses to the undertakings? By my count there is 44, so...

MR. CASS: I don't think we're in a position to give you a time. We've only just finished giving the undertaking responses, and I don't think the witnesses have had an opportunity to consider we they can have them available by.

MR. CLARK: Most importantly at this point I think is the undertaking by the Carriers and anything relating to the poles, because I have just received a letter from the Carriers requesting an extension. I'm sure you have it there now, too.

So have you any idea when you are going to have the Carriers' responses in?

MR. CASS: Yes, I spoke about that this morning. There are -- just very roughly, it might be close to two-thirds that were expected to be today, and the balance would be by next Wednesday.

MR. CLARK: Okay.

MR. CASS: That's just rough. Don't hold me to the two-thirds, but it’s something like that. It is around 7 of the 18, so that's more than a third, that would not be available until next Wednesday.

MR. CLARK: Okay.

MS. DJURJEVIC: Perhaps then you could also advise the Board and the parties how much time the applicant requires to complete all the answers to the undertakings, so that we have at least some date to work towards.

MR. CASS: I don't think so we have any idea at this point in time. We have to sit down and figure that out.

MR. TUCCI: No, saying like next Wednesday. Can they, by next Wednesday, figure -- say this is going to take us two or three weeks, or longer or less?

MR. CASS: Yes.

MS. DJURJEVIC: Okay, all right. Well, I guess that's it. Thank you everyone.

--- Whereupon the conference concluded at 4:15 p.m.