



ONTARIO ENERGY BOARD

FILE NO.: EB-2010-0046

VOLUME: Technical Conference

DATE: February 18, 2011

THE ONTARIO ENERGY BOARD

IN THE MATTER OF Sections 18 and 19 of the
Electricity Act, 1998;

AND IN THE MATTER OF a Submission by the
Independent Electricity System Operator to
the Ontario Energy Board for the review of
its proposed expenditure and revenue
requirements and the fees which it proposes
to charge for the year 2011 in connection
with the IESO-controlled grid and IESO-
administered markets.

Hearing held at 2300 Yonge Street,
25th Floor, Toronto, Ontario,
on Friday, February 18, 2011,
commencing at 9:29 a.m.

TECHNICAL CONFERENCE

A P P E A R A N C E S

KRISTI SEBALJ	Board Counsel
ROBERT CAPUTO	Board Staff
DAVID RICHMOND	
LEILA AZAIEZ	
GLENN ZACHER	Independent Electricity System
RICHARD LANNI	Operator (IESO)
MAIA CHASE	
BIJU GOPI	
JAMES WIGHTMAN	Vulnerable Energy Consumers
	Coalition (VECC)
SHELLEY GRICE	Association of Major Power
	Consumers of Ontario (AMPCO)
VINCE DeROSE	Canadian Manufacturers & Exporters
	(CME)
DAVID MacINTOSH	Energy Probe Research Foundation
DEV PASUMARTY	Electricity Distributors
	Association (EDA)
SCOTT TRAVERS	Society of Energy Professionals
MIKE BELMORE	

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1 Friday, February 18, 2011

2 --- On commencing at 9:29 a.m.

3 MS. SEBALJ: All right. Why don't we get started?

4 Good morning, everyone. My name is Kristi Sebalj, and I am
5 Board counsel for the IESO fees case.

6 I will just introduce the Board Staff team to you.

7 Many of you will know them: David Richmond, Robert Caputo,
8 and this is Leila Azaiez.

9 We are here for a technical conference for docket
10 number EB-2010-0046, which is an application -- or, sorry,
11 which is the fiscal 2011 fees submission for review by the
12 IESO.

13 As you know, this technical conference was ordered as
14 part of Procedural Order No. 1 in this matter. We also
15 have an issues list that was the subject of submissions and
16 a decision by the Board. That decision is dated February
17 11th, 2011, and that is the issues list that should be
18 referenced for purposes of scoping the questions for
19 today's technical conference.

20 So Board Staff's role today is to organize the
21 proceedings, and, as you will have seen, Board Staff also
22 has some questions for the IESO witness panel.

23 I also just wanted to note that, as with every
24 technical conference, this is being transcribed and we are
25 also on air. Everything is on the record, so I would ask
26 all participants that you please speak clearly into your
27 mics so that the court reporter can hear you.

28 In terms of the order of events, I understand that the

1 IESO has -- I assume you are going to introduce your panel,
2 but you also have a few words with respect to the evidence
3 in this matter.

4 We have spoken with the other parties in the room, and
5 Board Staff proposes to go first. I think Robert will be
6 asking the majority of the Board Staff's questions, and
7 then I believe there are questions from AMPCO and VECC. I
8 am not sure if there is anyone else in the room that does,
9 but you can let us know when we do appearances.

10 The only other thing I will note is of course, as with
11 every technical conference, we do not have an adjudicative
12 panel here today. So if there are any disputes with
13 respect to the sufficiency of answers to questions or any
14 other matter, that will obviously have to just be put on
15 the record and referred to the Panel for a determination.

16 With that, I will ask for everyone to register their
17 appearance for the record, and then turn it over to Glenn
18 to introduce the IESO panel. Do you want to start with
19 James?

20 **APPEARANCES:**

21 MR. WIGHTMAN: James Wightman on behalf of VECC.

22 MS. GRICE: Shelley Grice representing AMPCO.

23 MR. DE ROSE: Good morning. Vince DeRose representing
24 Canadian Manufacturers & Exporters.

25 MS. SEBALJ: Sorry, I should mention that the mics are
26 tricky, and particularly for the witnesses, your mics are
27 linked. So if you are part of the same pod, for lack of a
28 better word, please don't turn off your mic if your

1 colleague is about to speak, because you will turn your
2 colleague off.

3 MR. MACINTOSH: David MacIntosh for Energy Probe.

4 MR. PASUMARTY: Dev Pasumarty for the Electricity
5 Distributors Association.

6 MR. TRAVERS: Scott Travers, Society of Energy
7 Professionals.

8 MR. BELMORE: Mike Belmore, Society of Energy -- Mike
9 Belmore, Society of Energy Professionals.

10 MR. ZACHER: Glenn Zacher, counsel for the IESO, and
11 with me is Richard Lanni, who is counsel, and Maia Chase
12 and Biju Gopi, who are senior analysts in regulatory
13 affairs. And I will introduce the rest of the folks on the
14 panel in a moment.

15 MS. SEBALJ: I think we can go ahead. Unless anyone
16 has anything of a preliminary nature, I think we can go
17 ahead.

18 MR. ZACHER: Okay. So just before we introduce the
19 panel, I want to say thanks again to the Board for
20 accommodating us and having a technical conference, and, as
21 well, thank you to those intervenors who submitted
22 questions in advance. It assists in helping us make sure
23 that we have the right people and that we can gather the
24 information in advance of today.

25 Before I introduce the IESO representatives on the
26 panel, I just wanted to highlight one point in the
27 evidence. We filed our notice of application and
28 supporting evidence in early November. Recently, an

1 amended application was filed, and the subject of that
2 amendment has to do with the treatment of the operating
3 surplus.

4 That is an area where there is a slight change this
5 year from past years. Whereas in past years the IESO has
6 traditionally retained \$5 million of any accumulated
7 surplus to use to offset variances over the planning
8 period, what the IESO is proposing this year is to retain a
9 larger amount because of forecast lower demand and higher
10 costs.

11 When it comes to -- and the purpose of that is to
12 mitigate against what would otherwise be a larger fee
13 increase and to assist in stabilizing rates. When we come
14 to that issue, which I believe is issue 3 on the issues
15 list, Susan Nicholson, who is the IESO's corporate
16 controller, will speak a little bit more to the particulars
17 of that proposal and, of course, will welcome any questions
18 that intervenors have.

19 So with that said, let me introduce the panel. In
20 past years, we have had a couple of smaller panels cover
21 specific issues, but we thought this year the issues
22 interrelate generally, and so we just have everybody
23 sitting up here as one. And it may be that as we progress
24 through the morning, one or two people, to the extent
25 they're finished with the issues that are their
26 responsibility, may depart, if that is okay with others.

27 So to my far right is Mark Wilson. Mark is the IESO's
28 director of corporate planning.

1 Next to Mark is Darren Finkbeiner. Darren is the
2 manager, market development for the IESO.

3 Next to Darren is Bill VanVeghel, who is the IESO's
4 manager compensation and benefits.

5 Next to Bill is Susan Nicholson, who, as I indicated,
6 is the IESO's corporate controller.

7 And then next to Susan is Brian Rivard, manager of
8 regulatory affairs and sector policy analysis, and last but
9 not least Rhonda Hilbig-Wright (sic), who is the IESO's
10 manager with respect to the enhanced day-ahead commitment
11 process.

12 **IESO - PANEL 1**

13 **Darren Finkbeiner**

14 **Susan Nicholson**

15 **Brian Rivard**

16 **Bill VanVeghel**

17 **Mark Wilson**

18 **Rhonda Wright-Hilbig**

19 MR. ZACHER: Thank you.

20 MS. SEBALJ: Sorry. I had mentioned to the other
21 parties -- Glenn, you had asked me to see if parties could
22 ask their EDAC questions ahead, and I think parties are
23 amenable to doing that.

24 MR. ZACHER: I apologize. I forgot. If we could do
25 that, because Ms. -- and I believe I actually said Ms.
26 Hilbig-Wright. It is Ms. Wright-Hilbig -- may have to
27 leave part way through the morning, so it would be helpful
28 if we could deal with that question first. Thank you.

1 MS. SEBALJ: Okay. If there is nothing else, I guess
2 we will start.

3 **QUESTIONS BY MR. CAPUTO:**

4 MR. CAPUTO: My questions relate to the evidence that
5 is in Exhibit B, tab 4, schedule 1 on page 3.

6 Now, according to the evidence on page 3, the total
7 approved capital for EDAC remains unchanged at
8 \$26.5 million, with projected expenditures of 12.5 million
9 in 2010 and \$9.9 million in 2011.

10 I take it that the remainder of 4.1 million would have
11 been spent in 2009. Board Staff notes that the schedule
12 for EDAC has been slipping somewhat from the projected in-
13 service date of 2010 when the Board first approved EDAC in
14 2009 to the now projected 2012.

15 The evidence also indicates that the project costs and
16 the timing remain subject to some variability, depending on
17 the amount of testing required by the market participants
18 during the market trials.

19 Board Staff would like to get an update on the status
20 and a better understanding of the uncertainties with
21 respect to implementation of EDAC.

22 So my first question in this set is -- a request,
23 rather: Please provide an update on the status of the EDAC
24 project, including a description of the remaining steps
25 with expected completion dates and costs.

26 MS. WRIGHT-HILBIG: Am I on?

27 MR. CAPUTO: Yes.

28 MS. WRIGHT-HILBIG: I guess before I start to answer

1 the direct question that you asked at the end, I believe
2 you made reference in the preamble to the question that
3 when we first appeared speaking about EDAC in our 2009
4 proceedings, we did at that time have a scheduled in-
5 service date in 2012.

6 When we appeared last year, we did update the Board
7 that our expected in-service date was Q4 of 2011. And in
8 our prefiled evidence from November, we did indicate that
9 that schedule remains the same. So from our evidence last
10 year, our in-service date is the same as what we are
11 projecting here today.

12 So I just wanted to make that correction.

13 In terms of the status of the project at this time, as
14 we noted last year, our project was first brought before
15 our board in September 2008 and was approved to be carried
16 forward as an initiative at the IESO.

17 Effectively, the market design for the new enhanced
18 day-ahead commitment process was approved by our board in
19 February of 2009 as the release for our capital funds to
20 carry out the detailed design work was approved. So that
21 was sort of the first gate for the expenditure of capital
22 funds to initiate this project.

23 That detailed design and the associated changes to our
24 systems was finalized in April of 2010, and it did include,
25 at that time, a treatment for combined-cycle facilities,
26 which was one thing we had discussed here last year that we
27 had just finalized a treatment for those very important
28 facilities and the new resource mix.

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1 As we stand right now, we are very deep into our IT
2 design and build stage, as we call it. We are working
3 right now with the systems that have been delivered on-site
4 and with the systems that have been modified by some of our
5 vendors, and we are commencing our internal testing before
6 we start to go out and test with our market participants.

7 Market trials are expected to start mid-year of 2011,
8 and we are deeply engaged in discussions with market
9 participants as to which -- what form that testing will
10 take.

11 As far as the IT design and build stage itself, that
12 stage did start in November 2009 and we expect it to wrap
13 up in June 2011.

14 As I sort of alluded to a little bit earlier, we have
15 effectively three stages of our project left.

16 We have the market trials stage, where effectively it
17 is the first time our market participants come in as users
18 of this new process and systems, and carry out testing with
19 us. That is expected to start, as I said, in June, and
20 likely carry through the better part of the summer to about
21 August of this year.

22 After that stage is complete, we will carry on with a
23 stage we call transition to service. It is a short stage,
24 which basically allows us to clean up any defects that we
25 found while working with our market participants and to get
26 effectively all of our documentation and systems into
27 production so that they're ready to go live.

28 And the last stage is what we call project closure.

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1 It's basically the winding-down of the project.

2 So those are the three stages that are left on the
3 books. Project closure is expected -- or sorry, I guess
4 I -- transition to service is August to September of 2011.
5 And then our in-service, we expect in the September/October
6 time frame of 2011, followed thereafter by project closure.

7 I can't remember if I have caught everything.

8 MR. CAPUTO: So March 2012 would be -- would be -- is
9 that not the completion date, then?

10 MS. WRIGHT-HILBIG: If you consider that we may still
11 be wrapping up a few pieces of the project, the project
12 itself, our project closure phase we have roughly noted for
13 between, you know, the September/October timeframe through
14 to March of 2012. But effectively the project would be in
15 service at that time; it would be in service sometime in
16 the September to October timeframe, with a little bit of
17 cleanup work and closure work occurring after that.

18 MR. CAPUTO: By the way, I just wanted to mention that
19 initial 2010 date that I had mentioned, I think that was
20 taken from the decision in 2009, which I believe indicated
21 that the cash flows were all in 2009 and 2010. There were
22 no further cash flows beyond 2010.

23 MS. WRIGHT-HILBIG: Mm-hmm. Okay.

24 MR. CAPUTO: At that time. So it appeared that the
25 project would be completed in 2010.

26 MS. WRIGHT-HILBIG: Mm-hmm. Okay.

27 MR. CAPUTO: Okay. So my next question in this area
28 is please comment on the likelihood of achieving the now-

1 projected completion date, I had here, of 2012, but --

2 MS. WRIGHT-HILBIG: Yes.

3 MR. CAPUTO: -- you are saying it is now the fall of
4 this year?

5 MS. WRIGHT-HILBIG: Certainly as we sit right now, a
6 lot of the most uncertain stages of the project are behind
7 us, or almost behind us.

8 Certainly our detailed design phase, where we made a
9 lot of discoveries about things that we had to address in
10 the course of the project, is behind us.

11 The IT design and build phase is, as I mentioned,
12 largely behind us, although we are still in the process of
13 testing a lot of those deliveries.

14 So in terms of a September/October timeframe for
15 coming into service, you know, we haven't set an exact date
16 yet, but all of our planning is targeting that time frame
17 for in service.

18 MR. CAPUTO: Okay. Also could you comment on the
19 likelihood of the project remaining on schedule with an
20 estimated total cost of 26.5 million?

21 MS. WRIGHT-HILBIG: Right now, as I mentioned, we do
22 have these three phases in front of us.

23 We don't have detailed estimates prepared yet for
24 those three phases, but they are more of a durational work
25 effort. They don't carry the same degree of uncertainty
26 and costing that some of the phases that we have already
27 been through, for example, our IT design and build, which
28 was the largest component of our capital spend.

1 Right now our actual to-date expenditure is 15 -- just
2 let me check, if I can just check my notes here to get you
3 the exact number -- is 15.4 million to date. That is to
4 the end of 2010.

5 We do have projections in place and a release of
6 capital funds to take us to the end of our IT design and
7 build phase. We are not expecting any significant use of
8 contingency to get through that phase.

9 That phase, as I mentioned, will be complete in June.
10 And we will be going to our board in April with a request
11 for release of capital funds for the last three remaining
12 phases.

13 At this point, because of the nature of that work and
14 the fact that it is less uncertain in terms of cost than
15 some of the phases we have been through, we don't expect to
16 be asking for money that would cause us any concern about
17 going over the 26.5 total budget envelope for the project.

18 MR. CAPUTO: Now, I believe the 26.5 million includes
19 a contingency of 4.6 million.

20 Now, since you indicated that not much of the
21 contingency is expected to be used, would that not mean
22 that the total cost would be expected to be about
23 four million less than the 26.5 million?

24 MS. WRIGHT-HILBIG: Again, I don't have an exact
25 number for where that final value will sit, because we
26 haven't carried out our work to plan for that capital
27 release for those last three stages.

28 But given the fact that that work is much less --

1 carries much less risk in terms of cost than our earlier
2 stages, you know, the likelihood of us having to use that
3 4.6 contingency funding certainly diminishes as we move
4 forward.

5 MR. CAPUTO: But you are still expecting the total to
6 be 26.5, or -- or has that reduced?

7 MS. WRIGHT-HILBIG: Well, we are certainly not
8 expecting to be over that amount.

9 I don't have an exact number yet, because we still
10 have to go forward to our board with a release of funds for
11 those last three stages.

12 But again, the nature of that work is fairly -- I
13 won't say easy to estimate, but it is certainly less risky
14 to estimate than some of the other estimates that we have
15 already carried forward to our board.

16 MR. CAPUTO: Okay. Well, thanks very much. That is
17 all of the questions I have, unless Kristi has some
18 questions.

19 MS. SEBALJ: I just wanted to follow up. Sorry, what
20 was the 15.4 number that you --

21 MS. WRIGHT-HILBIG: That is the actual dollars that we
22 have spent through to the end of 2010, capital funds.

23 MS. SEBALJ: Thank you. I think that is it from Board
24 Staff on the advanced day-ahead market stuff. I don't know
25 if there is anything from AMPCO or VECC, or anyone else for
26 that matter.

27 MR. CAPUTO: Are we moving on to staff compensation?

28 MS. SEBALJ: No. I think we will do --

1 **QUESTIONS BY MS. GRICE:**

2 MS. GRICE: Sorry. Hi. Our Question No. 14 referred
3 to the EDAC project, and we asked for a breakdown of budget
4 and actuals for the project from 2009 to 2012. So based on
5 what we have heard today, we've got 15.4 million to the end
6 of 2010.

7 I guess the only additional information we would have
8 asked would be the breakout of that \$15.4 between 2009,
9 2010, and then just confirmation, moving forward, what the
10 numbers are.

11 MS. WRIGHT-HILBIG: In terms of the \$15.4 that we have
12 spent to date, I think -- did you have a handout? Okay.
13 We actually do have a handout which has that information,
14 but I can read it to you while you are waiting for your
15 copy to arrive.

16 The actual spend in 2009 was \$4.1 million, and 2010
17 \$11.3 million. We obviously don't have an actual for 2011,
18 but we do have, in our business plan, a spend of 9.9. And
19 just to note that these numbers still include the
20 contingency that we have in our plan.

21 MS. GRICE: Okay, thank you.

22 MS. WRIGHT-HILBIG: And, of course, I think you had
23 also asked for numbers for 2012, but we do not have a
24 capital budget for 2012. We expect to be in service this
25 fall.

26 MS. GRICE: Thank you.

27 MS. WRIGHT-HILBIG: Okay.

28 MR. ZACHER: If I could just interject for a second,

1 what we have handed out is, I guess, a seven- or eight-page
2 document which provides answers to -- in table format, and,
3 as well, some copies of some, I guess, pay schedules, which
4 are in response to some of the written questions in advance
5 from AMPCO, from VECC and from Board Staff.

6 So we have just consolidated them into one document.
7 So perhaps we could just mark it collectively as an
8 exhibit?

9 MS. SEBALJ: Sure. We will just mark it TC.1.

10 **EXHIBIT NO. TC.1: TABLE IN RESPONSE TO WRITTEN**
11 **QUESTIONS.**

12 MS. SEBALJ: So for the purposes of the record,
13 Rhonda, you were referring to which page and which question
14 number when you gave your answers?

15 MS. WRIGHT-HILBIG: Sorry. It is question 14 on the
16 second page of the handout.

17 MS. SEBALJ: Question 14. Okay, thank you. Is there
18 anything from VECC?

19 MR. WIGHTMAN: No.

20 MS. SEBALJ: Okay. Anyone else on the advanced -- on
21 the enhanced day-ahead market? Going once, going twice.
22 Once Rhonda leaves the room, I think we are out of luck for
23 expertise on this particular issue. Okay, thanks very
24 much.

25 MS. SEBALJ: In terms of questions going forward, did
26 you want parties to try and do salary and compensation
27 issues ahead of time, or do we just sort of go ahead now?

28 MR. ZACHER: I think we are content to just go ahead

1 sort of sequentially by the issues.

2 MS. SEBALJ: Perfect. So I guess Board Staff will
3 resume, then.

4 CONTINUED QUESTIONS BY MR. CAPUTO:

5 MR. CAPUTO: So I believe we are moving on to
6 operating costs, then. The first item we have is to do
7 with pension expenses.

8 Could you please refer to Exhibit B, tab 2, schedule
9 1, page 13? Now, that page shows that the pension costs
10 are expected to increase from \$15.7 million in 2010 to
11 \$18.6 million in 2011, which is an increase of
12 18.5 percent.

13 From the table, a major contributor to the increase is
14 amortized actuarial losses. Board Staff would like to
15 explore the rationale and reasonableness of the significant
16 increase in pension costs from 2010 to 2011.

17 Now, my question related to pension cost is: Please
18 provide a detailed explanation of the proposed increase of
19 5.1 million in unamortized actuarial losses from 2010 to
20 2011.

21 MS. NICHOLSON: So we are starting with pension
22 expense and change in accounting standards in the first
23 question, so I get all of my tough stuff out of the way
24 upfront.

25 If I can refer everybody to page 13 of 16 in
26 Exhibit B, tab 2, schedule 1, pension expense at a high
27 level is an actuarial calculation in the current year of
28 what you need to expense in order to meet your future

1 obligation to fulfil that promise to your employees.

2 If you look at the table provided on page 13, across
3 the top there are current service costs, interest on
4 benefit obligations, and the expected return on assets.

5 All of those components of pension expense are derived
6 by the actuary based on management's assumptions on, for
7 example, what the return on assets will be in any given
8 year.

9 The amortization on experience is the actual
10 difference between what our assumptions had been for the
11 actuarial calculation and what they actually were.

12 On January 1st, 2011, the IESO will be moving to
13 Public Sector Accounting Board standards. That is because
14 commercial GAAP does not exist any longer for the IESO.
15 The IESO is classified as another government organization,
16 and we had the option of moving to international financial
17 reporting standards or to Public Sector Accounting Board
18 standards, and we are moving to PSAB.

19 At the date of transaction -- or transition, excuse
20 me, for moving to PSAB, any unrealized or unrecognized
21 experience gains or losses get moved into a deficit
22 account. It doesn't mean they go away or that the IESO
23 still doesn't have to account for those obligations. They
24 get moved, under accounting, into a deferral account. And
25 that amount is \$56.1 million as of January 1st, 2011.

26 What we have presented in our rate case is a year-
27 over-year similar presentation to accounting treatments as
28 opposed to just taking the \$56.1 million and expensing it

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1 all in 2011.

2 So in the past, under commercial GAAP, the unrealized
3 amortized -- unrecognized unamortized gains and losses
4 would have been amortized over EARSIL, which is your
5 estimated average remaining service life on employees. At
6 the IESO, that is eleven years. So the 5.1 is really just
7 that 56.1 over 11 years.

8 If you go down the columns from start to finish, the
9 change in the actuarial calculation on current service
10 costs is \$0.2 million. The actuarial calculation on the
11 interest and benefit obligation is 0.9 million. The
12 expected return on assets is 0.5 million. And from the top
13 to the bottom on the experience -- on the amortization of
14 experience, it is 1.7 million in total.

15 The reason the table was presented the way it was was
16 to try and demonstrate what the change in accounting was
17 going to cause. If we had continued along with commercial
18 GAAP, our pension expense would have been the 19.2 million
19 shown about half way down the table.

20 By moving to PSAB, there is a change in the discount
21 rate, and that actually decreases the cost to
22 \$13.5 million. But we wanted to keep everything equal year
23 over year, and so we have split-out that \$5.1 million
24 separately.

25 So actually, you know, it is 18.6 under PSAB with the
26 5.1 in, versus 19.2 million, what would have been under
27 commercial GAAP. So it is even actually a little bit
28 lower, and that is because of the change in discount rates.

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1 MR. CAPUTO: So that sounds like it is mainly due to a
2 change in accounting practices, the change from 2010 to
3 2011.

4 If we are looking at the totals, I mean, 15.7 to 18.6,
5 I believe?

6 MS. NICHOLSON: Year over year, you always have change
7 in your actuarial calculation on your pension expense,
8 because you have -- discount rate is usually the biggest
9 driver of the change at the IESO.

10 You know, as the discount rate increases or decreases,
11 that forces the actuarial calculation to say, in your
12 current year, your expense needs to go up or down.

13 MR. CAPUTO: So the discount -- the change in discount
14 rate alone would have resulted in a cost of 5.5 million; is
15 that right?

16 MS. NICHOLSON: 5.5? I am not sure where 5.5 million
17 comes from.

18 MR. CAPUTO: I am looking at the table on page 13.

19 MS. NICHOLSON: That's --

20 MR. CAPUTO: Yeah, the actual change to the discount
21 rate, which added 5.5 million to the -- to the actual
22 pension costs for 2011.

23 MS. NICHOLSON: But there is also a change in discount
24 rate that would have happened under commercial GAAP of
25 2 million.

26 MR. CAPUTO: Okay. So the difference is really
27 3.5 million?

28 MS. NICHOLSON: Yes.

1 MR. CAPUTO: The net impact on the pension cost?

2 MS. NICHOLSON: In total. And that is a decrease,
3 because under PSAB, the discount rate actually increases to
4 6.5 percent. It is equivalent to your expected rate of
5 return on assets.

6 The positive thing from a rate case perspective with
7 that is you are your expected rate of return on assets is
8 fairly flat. It doesn't fluctuate the way the discount
9 rate would have changed under commercial GAAP.

10 MR. CAPUTO: Well, I don't have any further questions
11 on this. Do you have any questions, Kristi?

12 MS. SEBALJ: I am going to show my complete ignorance
13 by trying to get you to clarify.

14 I followed you up until -- so I understand the 9.2 is
15 commercial GAAP, and the 13.5 is PSAB; correct?

16 MS. NICHOLSON: Correct.

17 MS. SEBALJ: I guess the piece that I am having a hard
18 time with is EARSL, and whether or not that applies for the
19 purposes of this year.

20 MS. NICHOLSON: Okay.

21 MS. SEBALJ: Because it says here:

22 "Under past accounting standards this amount
23 would have been amortized over the estimated
24 average remaining service life EARSL."

25 Which you explained is the 11 years. So what I am not
26 understanding is what is happening in this year that is
27 different from that, because the 5.1 million -- I thought
28 that was the EARSL treatment; is that correct?

1 5.1 million, and we are not doing that this year.

2 Instead it is the 18.6; is that right?

3 MS. NICHOLSON: No.

4 MS. SEBALJ: Okay. That is where I lost you.

5 MS. NICHOLSON: Yes. Let me try and clarify, and
6 hopefully this will make sense. And if not, we will try
7 again.

8 So in our 2010 rate, under commercial GAAP we would
9 have had an unamortized amount -- an unamortized loss on
10 experience that would have been taken over EARSL, and that
11 would have been included in our 15.7.

12 MS. SEBALJ: Okay.

13 MS. NICHOLSON: For the 2010 pension costs.

14 If we move strictly to accounting under PSAB, our
15 total pension costs for 2011 would be 13.5.

16 However, we would have a 56.1 million unamortized
17 experience loss on our books that we would still have to
18 recover. It is still part of our pension obligation.

19 So what we have proposed in this rate case is to treat
20 it the way we have always treated it, and amortize it over
21 EARSL, so we add 13.5 plus the 5.1 to get the 18.6.

22 MS. SEBALJ: Perfect. Now I get it. Thank you.

23 MS. NICHOLSON: It is super-complicated.

24 [Laughter]

25 MS. SEBALJ: Sorry, when I say "I get it" that is
26 relative. For my purposes, I get it. I don't get it the
27 way you get it.

28 Do we have anything -- I think we are just continuing.

1 I don't think we're --

2 MR. CAPUTO: No one else?

3 MS. SEBALJ: I think we will just do all of our
4 questions, then we will go to AMPCO and VECC.

5 MR. CAPUTO: Okay. The next set of questions is
6 related to staff compensation.

7 MR. ZACHER: Sorry. Sorry. I apologize. If we -- we
8 were going to do each issue, though; is that right? We're
9 not...

10 MS. SEBALJ: Okay. Sorry, I am the one who is leading
11 the confusion here. So --

12 MR. ZACHER: I mean, if -- as long -- I gather that
13 staff cost question falls under issue 1? I just wanted to
14 clarify. It might be easier if we just at least exhaust
15 all of the questions on issue 1 and then move to issue 2,
16 et cetera. Is that okay?

17 MR. CAPUTO: That's fine. So we should continue with
18 pension costs?

19 MR. ZACHER: Sure.

20 MR. CAPUTO: Okay. So we are done with that.

21 Does anyone else have questions on pension?

22 MR. WIGHTMAN: We do. All right. I don't know if
23 it's -- I mean, we have the word "pension" in our first
24 question from VECC.

25 MR. DeROSE: Does that mean it is issue 1?

26 MR. WIGHTMAN: Well, it is issue 1. It was for
27 issue 1 that was for a breakout of OM&A, what you expensed
28 and what you actually forecast for net pension.

1 **QUESTIONS BY MR. WIGHTMAN:**

2 MR. WIGHTMAN: That is our -- our Question 1.1, I
3 think, would be there.

4 MS. NICHOLSON: James, in the handout that was passed
5 around, on the second page there's a sub-title called
6 "Supplemental Information Response to VECC Questions."

7 And your Question 1, in that table we provided the
8 OM&A program costs and the OM&A pension costs for the past
9 five years. I think your question asked from the beginning
10 of time, but...

11 MR. WIGHTMAN: Well, time only started when you came
12 into existence. That is good. Thank you.

13 MS. SEBALJ: All right. I think we will continue.

14 Glenn, I think I finally understand what we are trying
15 to do here. And you are going by issue, as in everything
16 to do with operating costs to start with; correct?

17 MR. ZACHER: That's fine. Yes.

18 MS. SEBALJ: Okay. So with that, I think we have at
19 least another question, and I will just give proper notice
20 to AMPCO and VECC that we will do operating costs and then
21 we will go to capital spending.

22 So if we can organize ourselves that way. Thanks.

23 MR. CAPUTO: This set of questions relates to staff
24 compensation.

25 Please refer to page 10 of the business plan. Based
26 on the table at the bottom of the page, total staff levels
27 are projected to increase from 448 in 2010 to 477 in 2011,
28 an increase of 29 staff or 6.5 percent.

1 Now, if you could please turn to Exhibit B, tab 2,
2 schedule 1, page 9, the table on page 9 shows that staff
3 costs are expected to increase from 62.4 million in 2010 to
4 66.2 million in 2011, an increase of 6 percent.

5 The table also shows that the costs for contract
6 services and consultants are expected to increase from
7 7.5 million in 2010 to 9 million in 2011, an increase of
8 13.9 percent.

9 Another area that we want to explore is the comparison
10 of wage scales at the IESO with those of other
11 organizations that are -- that are descendants of Ontario
12 Hydro.

13 To help with that discussion, we have a reference from
14 the latest Hydro One transmission rate case, and that would
15 be EB-2010-0002.

16 I have some copies of that reference for anyone who
17 would like one. If you can share them, because I may not
18 have enough copies for everyone?

19 MS. SEBALJ: Let's just make sure that the person who
20 is going to likely answer this question gets a copy of it.

21 Even though it has its own EB and exhibit number,
22 let's just mark it, for the purposes of this proceeding, as
23 TC.2, please.

24 **EXHIBIT NO. TC.2: COPY OF DECISION WITH REASONS IN**
25 **EB-2010-0002.**

26 MR. CAPUTO: Could we refer to the table on page 15?
27 This table shows wage scale comparisons for 1999 and 2009
28 for Society-represented staff at the IESO, Hydro One, OPG

1 and Bruce Power.

2 Top ends of the salaries are shown for each group, and
3 based on that table, for each salary group, the top band
4 for the IESO exceeds the other organizations by about
5 17 percent.

6 Board Staff wishes to explore the reasonableness of
7 the IESO's strategy for staff compensation and the
8 increases in staff levels and costs from 2010 to 2011.

9 Now, my first question in this area is: Do the staff
10 levels shown on page 10 of the business plan include
11 contract services and consultants? Please explain.

12 MS. NICHOLSON: No, they don't include contract
13 services or consultants. They're IESO employees.

14 MR. CAPUTO: Okay. Could you please provide a
15 detailed explanation of the significant increases in staff
16 levels from 2010 to 2011?

17 MS. NICHOLSON: If I can refer your attention to TC.1,
18 in response to a question that was asked by AMPCO regarding
19 org. charts and actual numbers for questions 1(c) and 5(b),
20 we have provided, by organizational structure, the actual
21 full-time equivalents that the IESO had as of December
22 31st, including the 2010 budgeted numbers, 2011 business
23 plan numbers, showing the total of the 29 and change.

24 MR. CAPUTO: Now, could you give us an idea of why
25 this increased staff is needed?

26 MS. NICHOLSON: Sure. The staffing increases across
27 the IESO are for a number of reasons. They are to do with
28 the increasing demands on implementing government policy.

1 They're to do with addressing stakeholder needs.

2 They are also to do with increase in NERC and FERC
3 standards that are coming our way. I am going to refer to
4 Mr. Finkbeiner and Mr. Wilson to talk to that more
5 directly.

6 MR. FINKBEINER: There were -- Mr. Finkbeiner. There
7 were five key projects or key initiatives that the IESO had
8 put in its business plan that were the focus of those
9 increased resources.

10 It was in one of the questions, which I am just trying
11 to find. I believe it was an AMPCO question relating to --
12 AMPCO question 2. The evidence lists five key initiatives
13 to address expected challenges in response to stakeholder
14 identified priorities.

15 The 29 staff that are reflective of the increases for
16 2011 essentially are there to satisfy those key
17 initiatives, which include renewables integration, energy
18 modelling, market road map, the increase in complexity of
19 operations with the changing supply mix, and then a number
20 of other committed projects that we have on the books for
21 the 2011 period, which include everything from the EDAC
22 work to smart metering initiatives and some of the other
23 items that have been listed in our business plan.

24 So that is the -- those are the five prime buckets of
25 focus that we have included in the 2011 business plan that
26 require the additional resources.

27 MS. SEBALJ: Are most of the five -- is that largely
28 the 13 for resource integration, or do those fit into all

1 of the categories that you have?

2 MR. FINKBEINER: There is a number that -- if you look
3 at -- I believe smart metering had seven. There was a
4 number of for -- the renewables integration had a bulk --
5 like, there was, for example, six in our control room
6 operating centre directly, but then they're supporting
7 staff for renewables integration, design and development,
8 supporting systems and processes going into the control
9 room, whether it be SBG protocols, these sort of things, or
10 base load generation protocols.

11 Then there is another sector of renewables integration
12 which lead to things like mandatory targets for connection
13 assessments, the 150-day requirement. For those sorts of
14 things, we have added resources in those areas, as well.

15 MS. SEBALJ: Okay. You have broken it down for the
16 purposes of the answer to AMPCO question into resource
17 integration, corporate relations, organizational
18 development, operations and market assessment and
19 compliance. Those are your business units.

20 MR. FINKBEINER: Correct.

21 MS. SEBALJ: But then I guess it is further broken
22 down by the initiatives, is what you are saying, the five
23 main initiatives.

24 And I don't think it is completely obvious - sometimes
25 it is, sometimes it is not - where those initiatives fit
26 into the business units. So that is kind of where my
27 question came from.

28 MR. FINKBEINER: All right. So if I take a few

1 minutes, then, to look at those five initiatives.

2 Quite often, given the business that we are in, we
3 have -- if you recall from last year's business plan
4 submission, we have four pillars of today, tomorrow and so
5 on.

6 These projects often umbrella over various business
7 units. So if you take resource integration, for example,
8 that has earmarked a number of 13 staff in it, there is a
9 lot of that that relates to the renewables integration
10 associated with the Green Energy Act, but the renewable
11 integration, which is one of the key five key projects,
12 touches on just about every aspect of the IESO's business,
13 everything from deploying IT solutions to new operating
14 requirements, centralized forecasting, things of that
15 nature, new staffing resources to deal with the day-ahead
16 and real-time operational time frame, for example, the six
17 control room staff and the supporting staff for those, as
18 well as the resource integration team where it looks at
19 increases for things like connection assessments, energy
20 modelling, transmission assessments, which are changing the
21 way we have to run our business, given the new supply mix
22 that is coming.

23 And then there are also things like we have to design
24 new processes. We are not operating the system the way we
25 used to in historical terms. And that design work requires
26 resourcing, as well.

27 So if you look at the organization and its business
28 units, which are on page 1 of that submission, most of

1 these projects or a lot of the projects will expand across
2 all of those business units.

3 Some are more isolated. For example, the smart
4 metering initiative, there was seven. It was just for the
5 smart metering group. So it depends on which of the key
6 priorities, and, if you wanted to, I can spend a little
7 more time on those, but essentially there will be some that
8 are more specific to business units, and others that are
9 much more across-the-board resourcing.

10 MS. SEBALJ: That makes sense. I guess my question
11 is: From a planning perspective, someone got to the number
12 13 by adding up how much time someone is going to spend
13 in -- you know --

14 MR. FINKBEINER: Resource integration?

15 MS. SEBALJ: Yes. Someone added up the decimal points
16 to get to the number 13.

17 MR. FINKBEINER: Yes.

18 MS. SEBALJ: And is there anything out there that we
19 can look at that says that? Or, like, is there a document
20 that gets to the rationale of 13 in resource integration,
21 5.5 in operations?

22 MR. FINKBEINER: I don't believe we've produced
23 anything of that level of detail, as far as what with --
24 what within resource integration. Resource integration
25 covers a broad spectrum of the tomorrow view, everything
26 from the market rules, market development, the business --
27 sorry, Mark, what is your title? Corporate planning
28 department.

1 [Laughter]

2 MR. FINKBEINER: Mark is new, into that role.

3 And then into what we call our planning and
4 assessment, which looks at forecasting, transmission
5 assessment, connection assessment, market entry and so on.

6 So there are areas where we have increased by little
7 bits of FTEs, or full-time equivalents, and there are areas
8 where we have actually added resources.

9 Connection assessment, for example, is an area where
10 we've added specific resources, whereas market development,
11 which is in my role, we haven't added necessarily specific
12 resources but we have added focus in areas, if you will.

13 But we haven't produced any document with that level
14 of detail.

15 MS. SEBALJ: All right. Thank you.

16 MR. CAPUTO: Now, going back to page 9 of Exhibit B,
17 tab 2, schedule 1, the table shows that the costs for
18 contract services and consultants are expected to increase
19 from 7.9 million in 2010 to 9 million in 2011.

20 Could you please explain this significant increase in
21 costs for contract services and consultants?

22 MS. NICHOLSON: Under contract services and
23 consultants, a lot of the costs are continuous, ongoing,
24 year-over-year costs, and so part of those increases
25 reflect inflation. So there are things like the external
26 services audit, insurance, our board costs, our technical
27 panel costs, our intervenor costs, stakeholders.

28 It also includes, though, additional audit services

1 that do fluctuate year over year, and some additional
2 consulting services. So in 2009, we have -- or sorry, in
3 2011, we are expecting a fairly heavy use of external
4 audits in terms of our regular two-year section 59, 70,
5 which is the IT general controls audit on our settlement
6 system. All of those costs will be included into 2011.

7 We have some market development consulting work that
8 is going to begin in 2011, and that has been included in
9 that \$9 million.

10 We also -- sorry, I am just trying to look through my
11 notes quickly to see what else has been included in there.
12 We are beginning our dispatch algorithm review in 2011, so
13 partially some of those costs have been included in there,
14 as well.

15 And we have some obligations in terms of market rules
16 that have to come through our internal audit program.

17 So for the most part, those costs are flat, with some
18 inflation included in them. And then there are some key
19 projects that are going to add on to those.

20 MR. CAPUTO: I imagine the inflation component of that
21 would be quite small, compared to the 13.9 percent increase
22 that we see?

23 MS. NICHOLSON: Yes. It would be about 2 percent on
24 all of the costs. And then you have the full audit costs
25 over and above those.

26 MR. CAPUTO: Okay. So my next question relates to the
27 various salary groups that we had referred to, and I would
28 like -- I had asked for a table that shows the number of

1 employees in each group, the salary bands and average
2 salary, and any additional compensation not included in the
3 table, as well as the percentage unionized, if any.

4 MR. VANVEGHEL: First of all, let me apologize for my
5 voice. It is not in the best shape. So if people are
6 having problems with my voice, please let me know and I
7 will try to adjust.

8 In TC1, we have provided -- on the third page, we have
9 provided a table where we have provided data by -- and we
10 weren't sure exactly, when you said "salary groups." I am
11 assuming you meant by union jurisdiction, largely. So we
12 have given the data in terms of management, PWU and
13 Society.

14 And we have provided staff numbers as of -- as close
15 to the end of the year 2010 as we had available.

16 And for that group, we have taken average salaries and
17 we have also provided average additional costs.

18 Unfortunately, the average additional costs, we had to
19 relate back to 2009. The 2010 data hasn't been run yet.
20 It is part of the process that is being run right at the
21 moment as part of compilation of the T4s for employees, and
22 that process hasn't been completed yet.

23 So I don't have the 2010 data available yet, but as I
24 said, we have tried to provide the 2009 to give you an
25 order of magnitude.

26 What we have also provided you there is the total
27 staff as a percentage of the total. So that management is
28 16 percent of our employees, in terms of the data as of

1 December 22nd; PWU, 12 percent; and Society, 72 percent.

2 Then if you look at the remaining pages after that one
3 in that exhibit, they're all the various salary grades,
4 salary schedules, with their grades, that we have at the
5 IESO.

6 MR. CAPUTO: Do we have in here somewhere the numbers
7 that correspond to the table on page 15 of the Hydro One
8 case that shows MP2, MP4 and MP6 groups?

9 MR. VANVEGHEL: Yes, we do. If you look at the second-
10 last page in that exhibit, it's Salary Schedule 01, and
11 that is the salary schedule for 2010 for management and
12 professional staff, and it provides the data at the
13 different reference points and at the different M&P levels.

14 MR. CAPUTO: Okay. Now, what do these numbers
15 actually represent? Are they averages, or maximums?

16 MR. VANVEGHEL: No. Those numbers represent the
17 dollars per week that are paid to staff at the different
18 levels.

19 So for example, if we have an MP4 at what we call the
20 journey person level or the fully-capable level reference
21 point of 100, an MP4 would get paid \$2,076 a week. We
22 actually pay biweekly; we don't pay weekly, but the
23 schedules are quoted in weekly rates.

24 The maximums are the 115 level for each of the M&P
25 grades, and the minimums are the 80 percent.

26 MR. CAPUTO: Now, would you have somewhere what the
27 average -- the actual average of all the people that would
28 be at a given level?

1 MR. VANVEGHEL: Yes. If you go back to the table I
2 referred you to earlier, the third page, if you look at
3 Society and you look at average salaries for those people
4 as of December 22nd, 2010, it was \$103,541.00.

5 We have converted to annual, obviously.

6 MR. CAPUTO: So this would be the average of all the
7 staff that is represented in that Salary Schedule 01?

8 MR. VANVEGHEL: All, plus we have an additional
9 schedule. If you look at the last page within this
10 exhibit, there is an 04 schedule, and an 04 schedule is our
11 new grad hires, as we hire people into the company coming
12 right out of school.

13 And there is a handful of people. I don't know
14 exactly how many at the moment, but there is a handful of
15 people that are on that schedule. And the figure of
16 103,541 combines the 01 and the 04 schedule, all of the
17 employees that are represented by the Society.

18 MR. CAPUTO: Okay. Now, do you happen to have
19 averages for each one of those levels, say MP1 to MP6?

20 MR. VANVEGHEL: I do not have those handy with me.

21 MR. CAPUTO: Can we get those?

22 MS. SEBALJ: You said "handy with you", which leads me
23 to believe they exist.

24 MR. VANVEGHEL: I could have them calculated. I don't
25 have them available at the moment and we haven't calculated
26 them. They're obviously capable of being calculated.

27 I would mention a couple of points. If it is just for
28 schedule 1, that is probably, from a workload perspective,

1 not too bad. It is when you get into some of the other
2 schedules. From a workload perspective, for staff who are
3 in the middle of trying to get T4s out and public sector
4 salary disclosure, it is adding some more -- significant
5 work to them.

6 The other comment I would make is that MP1, we don't
7 have anybody on there right at the moment. MP3, I believe
8 there may only be one person, in which case I have to be
9 wary of the freedom of information, protection of personal
10 privacy considerations.

11 MS. SEBALJ: Okay. So can we ask you to do those
12 calculations, then, for MP2, MP4, MP5 and MP6?

13 MR. VANVEGHEL: Yes, I can undertake to do that.

14 MS. SEBALJ: Robert, do you want to put on the
15 record -- I am going to call it. I am trying to figure out
16 how to label this. TC -- I will call it TCU.1, technical
17 conference undertaking 1. And can you please tell us
18 exactly what you are looking for?

19 MR. CAPUTO: Basically what we are looking for is
20 average -- an indication of what the average salary would
21 be for people in the various salary groups, which includes
22 MP2, MP4, MP5 and MP6.

23 MS. SEBALJ: Thank you.

24 **UNDERTAKING NO. TCU.1: TO PROVIDE AVERAGE SALARY FOR**
25 **PEOPLE IN SALARY GROUPS MP2, MP4, MP5 AND MP6.**

26 MR. CAPUTO: All right. My next question is: Has the
27 IESO considered or initiated any measures that would reduce
28 or eliminate the gap in top band salaries, so that the

1 IESO's top of the band salaries are in line with those of
2 Hydro One, OPG and Bruce Power?

3 MR. VANVEGHEL: At the last round of bargaining in
4 2009, we did consider looking at the other approaches that
5 the other companies have, and we did have extensive
6 conversations with the Society on that.

7 As part of the arbitration award -- it was not part of
8 the award, and, as such, we will not have an opportunity to
9 have a look at that again until the next round of
10 bargaining, which is in 2012, for a contract beginning
11 January 1, 2013. The current contract extends until
12 December 31st, 2012.

13 But before ending at that point, I have had -- we have
14 spoken on this extensively in the last few rounds on the
15 technical conference, and maybe just to give you an
16 overview, it might be useful to pull together some of the
17 considerations that we took into account back in 2009 and
18 hopefully give you a better perspective of why we did not
19 end up pursuing or end up agreeing to a move to a time-
20 progression system, such as Bruce and OPG and Hydro One
21 has.

22 I would like to just take a moment or two to talk
23 about four considerations. First of all, in the table
24 that -- if you look at the table that Hydro One provided,
25 and even in your preamble, there is an inference that our
26 salary escalation is significantly above those of the other
27 companies, and that is just not the case.

28 In terms of looking at those tables, in 1999 all of

1 the companies were on the same system. In 2009, they were
2 on different systems, and the maximums had changed for the
3 other three companies, OPG, Hydro One and Bruce.

4 And so in terms of doing the comparison, it is not an
5 apples-to-apples comparison. If, for example, you tried to
6 take -- if you take a standardized approach and take, for
7 example, the 100 percent of reference point that we talked
8 about earlier on the Society salary schedule, and compared
9 that for all four companies, then what you will find -- and
10 trace that from 1999 to 2009, what you will find is that
11 all four companies have salary escalation which is quite
12 comparable.

13 They're centred around 35 percent over the ten-year
14 period, and it is a pretty tight clustering of
15 escalation percentages around that. And that makes sense
16 relative to the experience that we have had, where
17 collective agreements in the early part of that decade were
18 roughly about 3.5 percent and in the back end they were
19 roughly about 3 percent for pretty well all of those
20 groups.

21 So that escalation of about -- centred around
22 35 percent is quite common or is the result that we have
23 run into. That is comment number 1.

24 Comment number 2 is that -- and we spoke about this
25 last year -- that given that we have a number of people who
26 are above the 100 percent, there is the perception that our
27 average index is significantly high.

28 And what we provided last year was a table that showed

1 that our average index for Society was about 95.5. I don't
2 know what it is for the other companies, but it is well
3 below 100, and the trend on that data was downward. And so
4 the result of that is the understanding that our index is
5 below 100 and is trending downwards.

6 The third point I would like to make is that when we
7 looked at the approaches that Hydro One, Bruce and OPG
8 undertook and applied it to our universe of employees, what
9 we found was that the costs associated with implementing
10 that system would be higher than is the case with the
11 approach that we have got today. And it is higher in two
12 ways.

13 One is in terms of moving to the type of scheme that
14 Hydro One has, for example, it involves starting off and
15 recalibrating people to the step. So for example, Hydro
16 One have steps at 80 percent, 84 percent, 88 percent, so
17 somebody who is at 85 would have to be moved up to 88, and
18 so on, so that there is a calibration to the steps.

19 What we found in doing that was that that was going to
20 cost about a half a percent to a percent to do that
21 calibration.

22 The next thing we found when we costed it out was that
23 the percentage increases on an annual basis were going to
24 be higher than the 1.5 that we're paying under today's
25 scheme that we have with our performance pay plan.

26 And the rationale there is because -- again, as I
27 mentioned, taking Hydro One as an example -- the
28 incremental steps were four percent for those people in the

1 80s. So a person who is at 80 percent, everybody who is at
2 80 percent will get a four percent increase. Everybody at
3 84 percent would get a four percent increase, et cetera.

4 When you model that against our demographics, you end
5 up with an annual increase of between one and a
6 half percent to 2 percent, compared to the performance pay
7 plan that we have today, where under the requirements, we
8 pay approximately 1.5 percent.

9 So the cost is higher, number one. And number two,
10 you are building in a mechanism which provides for faster
11 acceleration to the 100 percent than is the case under our
12 current plan.

13 So that is point number three.

14 Point number four, I want to emphasize -- and again I
15 have mentioned this in the past -- one of the things that
16 is important to us as an organization is to promote a
17 performance culture. One of our values is performance.
18 One of our core competencies is drive for results.

19 And having a performance pay plan is an important
20 component to us in terms of helping line managers to
21 achieve that. The specific performance pay plan that we
22 have today is by no means ideal, but nevertheless, it is
23 very appropriate for line managers and it is useful to them
24 in terms of promoting discussion with -- between
25 supervisors and employees on expectations, expectations
26 around results for the year, performance for the year,
27 monitoring those expectations, making assessments,
28 providing feedback, and at the end of all of that process,

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1 being able to differentiate pay based on performance, which
2 the other tool does not provide.

3 So those are kind of the four points that I think are
4 of relevance to us.

5 So escalation overall in the long-term is roughly
6 comparable. Our index and standing in terms of our
7 employees is well below 100 and has been declining. The
8 costs of the moving over to the system, having applied it
9 to our employee population, is higher, and there is a
10 built-in component there of faster acceleration to
11 100 percent than is the case that we have today. And we
12 lose a useful tool for line managers, in terms of fostering
13 promotion.

14 At the end of the day, when we looked at all of that,
15 there was not a business case to be had, to move forward on
16 that. And we did have extensive discussions at that point
17 in time, but nevertheless, the bottom line is that the
18 business case for it just wasn't there.

19 Will we look at it again when we go into bargaining?
20 Certainly, we will. Prior to going into bargaining, it
21 is -- obviously it is a program that is well-entrenched now
22 with -- in component -- in different organizations in the
23 sector, and we will look at it again, but in the end, it is
24 going to have to make business sense to us before we move
25 that way.

26 MR. CAPUTO: Now, considering that OPG, Bruce Power
27 and the IESO have, sometime between 1999 and today, changed
28 their scheme so that the band goes from 80 percent to

1 100 percent, and the IESO's goes from 80 to 115, I
2 believe --

3 MR. VANVEGHEL: Right.

4 MR. CAPUTO: -- are there certain barriers that the
5 IESO has that the other companies didn't have in making
6 that change?

7 Is there something that applies to the IESO that does
8 not apply to the other organizations?

9 MR. VANVEGHEL: No, there is not. I mean, the
10 difference, quite frankly, Mr. Caputo, was from our
11 perspective there was not a business case there to do it.

12 It did not make business sense to us to do it.

13 MR. CAPUTO: Thank you.

14 MS. SEBALJ: Can I just ask a quick clarifying
15 question?

16 When you, as part of the four-pronged explanation you
17 provided -- you said the index is below 100 and trending
18 downward?

19 MR. VANVEGHEL: Yes.

20 MS. SEBALJ: I don't understand that. Is that because
21 there is more relatively inexperienced people coming in and
22 more senior people leaving? Is that how that works?

23 MR. VANVEGHEL: That is the explanation. Right now,
24 we have a greater proportion of our staff who are below 100
25 than are above 100.

26 So that explains the being below 100. Then, as well
27 as that in terms of trending downwards, as we have spoken
28 in the past at technical conferences, we have a significant

1 number of our employees who are eligible for retirement,
2 and so some of them have been exercising those rights to
3 retirement.

4 And we have been hiring in at the feed-in levels, the
5 04 schedule and up, and so that results in the index
6 declining over time.

7 MS. SEBALJ: Thanks.

8 MR. RICHMOND: Yeah, I was just going to ask something
9 about that too. And I think you explained it well, but
10 when you have looking forward, then, and I am assuming --
11 you didn't say how many people were at the high level of
12 approaching 115 or at that level, but I think implicit in
13 what you said as you go forward and you roll through these
14 more junior employees and the very senior ones then retire,
15 then if we were to look at that in the future, then that
16 would be even lower aggregate number as you get -- the
17 average aggregate number would be even lower.

18 So you said it is decreasing over time, and I am
19 assuming that would continue to do so.

20 And then there would be -- it would be more comparable
21 to a system that was indeed 80 percent to 100 percent at
22 that time, because there wouldn't be that many people above
23 the 100 percent grade?

24 MR. VANVEGHEL: Right now, for example, we have one
25 person at 115.

26 MR. RICHMOND: Okay.

27 MR. VANVEGHEL: The vast majority of people, quite
28 frankly, are clustered around 100, but the proportion in

1 the 80s has been growing, for example.

2 And it is the phenomena that you cited of people
3 retiring and so forth.

4 And as a result -- and we have a significant number of
5 our population eligible to retire. We do expect that to
6 continue. And as a result, we expect to hire in at the
7 lower level. And these aren't always hired in from
8 outside; they could be hiring in from elsewhere within the
9 company and so forth.

10 MR. RICHMOND: Right.

11 MR. VANVEGHEL: But they would come in at the more
12 junior levels within the scales.

13 MR. RICHMOND: Right. And if people were close to
14 retirement, you would reasonably expect that some of those
15 might be in the 100 to 115 range?

16 MR. VANVEGHEL: That's correct.

17 MR. RICHMOND: All right. Thank you.

18 MS. SEBALJ: I think the rest of our questions relate
19 to other issues, so we can either move to VECC and AMPCO,
20 if they have questions in this area, or we can take a
21 break. It is up to everyone here. Why don't we try and go
22 to 11:00? I don't know how many questions you guys have,
23 and then we will take a break.

24 **CONTINUED QUESTIONS BY MR. WIGHTMAN:**

25 MR. WIGHTMAN: Shelley has said VECC can go. We just
26 have one question and you might call it out of scope, our
27 question 1.2.

28 MR. ZACHER: No out-of-scope questions.

1 [Laughter]

2 MR. ZACHER: Just kidding.

3 MR. WIGHTMAN: It is just about the amortization
4 costs, and it is for information purposes only.

5 I just wanted to know if basically you only recover
6 the full cost if you change the service life. It is
7 still -- you are only going to recover the full cost, that
8 really the only change or judgment is when you reassess
9 remaining service life. Is that true or not? Are those
10 two things true?

11 MS. NICHOLSON: All right. When we do our
12 amortization calculation, based on the capital spending
13 that is planned for the year, we would look at it through
14 those projects that are planned to have spending on them.

15 So, for example, EDAC or a large multi-year project,
16 we would actually look at the total amount of dollars
17 planned on spending when that project is planned to go into
18 service, and we would put into our spreadsheet the
19 amortization expected with that project on a line-by-line
20 basis.

21 All of the rest of the capital spending that happens
22 in the capital envelope, all of the smaller projects, we
23 make an assumption they will be completed within the year,
24 in average setup in July, and we amortize them, because
25 they're small projects, over a four-year basis.

26 And so that is how the capital spending in the year
27 actually ties back to what we put into amortization.

28 With respect to the actual changes in service lives,

1 which did result in a large part of the surplus that we
2 achieved in 2010, when we're going into business plan, we
3 do a full capital planning exercise and we look at our list
4 of existing assets, which obviously we have an expected
5 amortization period for those existing assets.

6 Based on the planned priorities and projects that we
7 want to refresh or replace in the upcoming years and how
8 those existing assets are currently operating - if they're
9 operating effectively, if there is no glitches with them,
10 if we are spending a lot of time maintaining and supporting
11 them - that is fit into that capital plan.

12 What we found in this year, in particular, with some
13 of the larger major market systems, what we call our
14 EMS/MIS, our energy management system, where we had
15 actually planned last year, in last year's budget.

16 So, if you will, in the April of 2009 where we thought
17 we were going to replace that project in 2011, 2012, when
18 we looked at it this past April, April 2010, it is
19 operating well. It is operating effectively. It would
20 take a lot of resources to replace it. So we extended the
21 life of that asset out until 2014.

22 From an accounting perspective, when you change an
23 asset service life, you have to do it prospectively. In
24 other words, you don't go back and change your results from
25 previous years' amortization.

26 So the largest impact are in sort of over the two
27 years that you took -- you were going to finish amortizing
28 it, you are now spreading that out over four years. So

1 that is the approach that we take.

2 MR. WIGHTMAN: So it is just the unamortized amount
3 over a different service life, and there is -- I am not --
4 there is no question about smoothing or anything like that.
5 It is just: What is the service life, if it changes, and
6 here is the unamortized cost and that's it?

7 MS. NICHOLSON: And it is straight line, no magic,
8 nothing in there. Yes.

9 MR. WIGHTMAN: Thank you.

10 MS. GRICE: Okay.

11 **FURTHER QUESTIONS BY MS. GRICE:**

12 MS. GRICE: Moving on to AMPCO Question No. 1, we had
13 just wanted to know whether or not there have been any
14 changes to the organizational structure that was put in
15 place in 2010 and whether or not any organizational changes
16 are planned for 2011.

17 MS. NICHOLSON: No changes have been made. We are
18 still centred around the four pillars, as Darren mentioned,
19 and we don't have any plans to change for 2011.

20 MS. GRICE: Okay. Question No. 2 relates to the
21 business plan and the five key initiatives that are listed
22 in the plan for, that being renewable integration project,
23 energy modelling, the market road map, addressing the
24 increased complexity of real-time operations and other
25 committed projects.

26 And this morning, as part of the Exhibit TC.1, you
27 mapped the new FTEs, both regular and temporary, to the
28 organizational structure, but I wondered if it is possible

1 to map them to these five initiatives.

2 I think it was said this morning that all 29 relate to
3 these initiatives -- if it is possible to break that out
4 for us.

5 MS. NICHOLSON: We don't have that broken out.

6 The problem that we have with actually doing that is,
7 as Darren tried to explain, there is little bits of FTEs
8 all over the place that contribute to each of those five
9 initiatives.

10 So in some cases, I can tell you explicitly there are
11 five temporary positions coming in to satisfy the peaking
12 connection assessments. Those five are included in the 13
13 in resource integration.

14 And within this group of listing, where do those five
15 fit? We feel that all 29 new positions are directly
16 related to those initiatives. But when you have, like,
17 other committed projects, we would include smart metering
18 as an other committed project. That is seven resources.

19 But we have -- work on transmission sustainment is
20 coming in. We have new standards work that is coming in.
21 Those are all things that we are committed to addressing.
22 But they could be little bits of pieces from different
23 people across organizations, and we haven't delved into
24 that level of detail.

25 MS. GRICE: Okay. So then I just have a couple of
26 just follow-up questions, just to make sure I am clear on
27 what we do know about the FTEs that are going to those
28 projects.

1 One was filling a control room function on a 7-by-24-
2 hour basis, and I believe in a letter to the minister -
3 that is, I believe, Exhibit B, tab 1, schedule 2, and it is
4 the letter to Minister Duguid dated October 1st - there was
5 mention made to having six FTEs to man that position.

6 Maybe this was said already this morning, and I
7 apologize. But are the FTEs that have been indicated for
8 2011 -- is that one FTE for this position or six?

9 MS. NICHOLSON: It is six FTEs.

10 MS. GRICE: It is?

11 MS. NICHOLSON: That's a perfect example. If you look
12 at those six control room positions, it is to cover off a
13 24-7 operation, but if you look at the org. chart we have
14 provided, operations itself is showing an increase of 5.5
15 FTEs. So you can see that there is sharing of FTEs across
16 the divisions to different initiatives.

17 MS. GRICE: Okay, thank you. And in the same letter,
18 there was reference made to hiring ten additional staff to
19 conduct the connection studies for the contracted FIT
20 projects.

21 I just want to confirm that you still plan on hiring
22 those ten positions and whether or not they are regular or
23 temporary staff.

24 MS. NICHOLSON: Yes. The ten positions are in the
25 plan. Five are temporary and five are regular.

26 I believe the letter actually stated it was more than
27 just the FIT contracts, but those ten are still in the
28 plan.

1 MS. GRICE: Okay, thank you. Just looking at the
2 staffing plan that is on page 10 of the business plan. I
3 just noticed that a temporary position for customer
4 education that was there in 2010 and it looks like it was
5 there in 2009, I am just wondering why it has been deleted
6 for years moving forward, 2011 and beyond.

7 MS. NICHOLSON: Yes. The temporary positions at the
8 IESO are there to serve as peak workload. They are not
9 there for an enduring basis.

10 So in that particular case with customer education,
11 Brian can correct me, but I believe there was a lot of work
12 that had to be done for the MUSH sector in terms of
13 explaining pricing and things. So that was considered peak
14 workload, not ongoing workload. So a temporary resource
15 would have been used for that and not ever planned to be
16 continued on.

17 MS. GRICE: Okay, thank you. Okay, I am on question
18 5, the last part, (c). I'm just wondering if you could
19 tell me what percentage of the staff are being hired in
20 2011 that will be dedicated directly to the Green Energy
21 and Green Economy Act initiatives.

22 MS. NICHOLSON: I think we calculated about 17 of
23 the 29, and Darren can give actual specifics.

24 MS. GRICE: Okay, thank you.

25 MR. FINKBEINER: It is about 17 of the... representing
26 about 60 percent of the 29 staff.

27 Those 17 are allocated for some of the things you have
28 already mentioned, the control room, the connection

1 assessments, the energy modelling work that is going on, as
2 a direct result of the change in supply mix associated with
3 the Green Energy Act.

4 MS. GRICE: Can you break out the 17 by regular and
5 temp?

6 MR. FINKBEINER: They're -- I think we can. Do we
7 have that? I'm not sure if we can, actually, by the looks
8 of it.

9 MS. NICHOLSON: I don't have it with me.

10 MR. FINKBEINER: Apparently, we don't have it on hand.

11 MS. GRICE: Okay. Thank you.

12 MR. FINKBEINER: It was the 29 we have broken down.
13 We have 19 regulars and 10 temps of the 29, so that's the
14 number I was thinking about. Sorry, we don't have a
15 breakdown of the 17.

16 MS. GRICE: Okay. And Question No. 6 relates to the
17 smart meter entity. And appendix 3 where you provide more
18 details on the staffing for that initiative, I got a little
19 lost in what was happening with the FTEs.

20 So I just wanted to confirm that the resource
21 requirements that are mentioned there relate to the
22 staffing plan that we saw on page 10.

23 MS. NICHOLSON: Yes, they do relate to that. Where
24 you got confused was they look at the total FTEs into smart
25 metering, and what we have put in our staffing plan is the
26 actual positions hired for smart metering.

27 So for example, where there is legal requirements,
28 financial requirements, things like that, people are

1 charging their time to smart metering, but they are not
2 allocated to the smart metering entity. They would stay in
3 their home business unit.

4 MS. GRICE: Okay. That is helpful. Thank you.
5 The reference here is Exhibit B, tab 1, schedule 1, page 7,
6 and that is, I believe, the business plan. I will just
7 read the passage here.

8 "By reviewing and revising existing processes,
9 practices and tools, the IESO's management team
10 has achieved efficiencies across the
11 organization, including the areas of settlements,
12 IT control room support, market information,
13 marketplace training, stakeholder engagement,
14 market entry and finance, among others."

15 We just have a series of questions, just to provide
16 more details on what actions or changes took place in 2010
17 to achieve these efficiencies and whether or not there were
18 any cost savings associated with those.

19 MS. NICHOLSON: So the 2009 budget was actually 460
20 FTEs, and the 2010 is 448. So we are looking at basically
21 12 FTE efficiencies.

22 The way the efficiencies were achieved in 2010 was
23 through a number of means. One was a flattening of the
24 organization. There were some senior management positions
25 that were removed, some director-level positions that were
26 removed, and those accountabilities have been reassigned
27 amongst other staff.

28 We had some automation of tools that happened, so

1 again, those staff could be reassigned elsewhere.

2 And in some cases, we had some low-priority work that
3 we are no longer performing.

4 MS. GRICE: Okay. And does the IESO plan to remove
5 any additional positions in 2011?

6 MS. NICHOLSON: No. In 2011, we are actually going up
7 to 29 FTEs. So we don't have any specific plans on
8 positions.

9 MS. GRICE: Okay. So there wasn't a decrease and then
10 an increase? No? Just aside from that customer education
11 position?

12 MS. NICHOLSON: I don't understand.

13 MS. GRICE: Right?

14 MR. FINKBEINER: If I understand the question, where
15 we have -- we will still look for efficiencies where there
16 are areas where we can improve, to make sure those FTEs are
17 allocated to the right priority of effort.

18 So when you look at that reduction of the customer
19 education, that is one of the FTEs that we saved out of the
20 12, if you will. It allowed us to only ask for 29, instead
21 of 30, for example.

22 So when we look at things like the customer education,
23 if we find an area where it is either redundant or we can
24 defer or these sort of things, we will look at: Does that
25 resource no longer need to be within the organization, like
26 you have seen from the 460 number to the 448 number? Or do
27 we reallocate that to priority work, like we have been with
28 the renewables integration?

1 So net, the company is asking for 29 for 2011. It
2 could be in the background from savings in certain areas
3 but refocusing to others, so we don't ask for a larger
4 number.

5 So that is an example of where we've taken that
6 resource and we have allocated it and we have only asked
7 for 29.

8 MS. GRICE: Okay. Thank you. Okay. My next question
9 was to show a breakdown of the staffing costs according to
10 salary, benefits, staff expenses and training.

11 I believe that has been done as part of the Exhibit
12 TC-1.

13 MS. NICHOLSON: Yes.

14 MS. GRICE: On the first page there. Okay. So I just
15 had a question on whether or not any vacancies currently
16 exist within the organization, beyond the new hires.

17 MS. NICHOLSON: Actually, as of December 31st, we were
18 at 449 FTEs, which is one over our 448. So there may be
19 vacancies, but in terms of FTEs we are at full complement.

20 MS. GRICE: But there -- there may be vacancies within
21 that 449?

22 MS. NICHOLSON: As we are preparing to hire into 2011.

23 MS. GRICE: Okay. And the next question I had,
24 Question No. 9, was just on an explanation as to why -- or
25 the 2010 actuals of 61.6 million for staff costs have
26 changed from the projected, and I just wondered if you
27 could give us a little bit of an explanation on the change.

28 MS. NICHOLSON: Yes. So the 2010 projected costs were

1 calculated in the summer of 2010, and compared to how they
2 actually fell out throughout the year, we had -- an
3 additional 0.7 million were due to staff vacancies. We had
4 0.3 million that were due to employee's expenses being
5 lower than planned. Training expenses were 0.1 million,
6 lower than planned.

7 And these were offset by an increase in allowances of
8 0.3 million.

9 MS. GRICE: Sorry, what are allowances?

10 MR. VANVEGHEL: Allowances are payments for things
11 beyond base salary. It could be overtime, shift premiums,
12 on-call, relief, et cetera.

13 MS. GRICE: Okay. Thank you. Question No. 10 from
14 AMPCO has to do with the contract services, and in the IESO
15 update that was provided on February 2nd, contract services
16 are expected to be 2.3 million below the budget.

17 I just wondered if you explain that variance, please.

18 MS. NICHOLSON: So at the time of projection, we
19 expected our contract services and consultants to be about
20 0.2 million below what we had budgeted. In terms of
21 actuals, they were 2.3 million, so roughly 2.1 million
22 lower than what we had projected.

23 There was work that was planned for 2010 that was
24 deferred into 2011 of 0.6 million. This was specifically
25 to do with the market roadmap consulting, some internal
26 audit projects, and some customer relations projects.

27 We had negotiated savings on a number of our standard
28 services that are included in that. So we've gone out on

1 RFPs and RFQs on some standard services. Those savings are
2 of about 0.6 million dollars.

3 Some of the work that we did was we performed it in-
4 house as opposed to going out on contract. It was a
5 savings of \$100,000, but it was in terms of a prudential
6 review in our treasury area, talent management work that
7 was done by HR, and some other internal audit services that
8 were performed.

9 Then 0.8 million was actually work that was not
10 required or was not undertaken in the year.

11 MS. GRICE: Okay. Thank you. And I think this is the
12 last question I have regarding operating costs. The
13 reference is Exhibit B, tab 1, schedule 2.

14 It is an IESO letter to Minister Duguid dated October
15 29th, and in the letter, the IESO indicates that
16 significant steps were taken to increase efficiencies and
17 productivities, and work has been identified that was
18 delayed or stopped altogether, and where possible,
19 vacancies created through retirement or other attrition
20 were not filled.

21 I just wondered if you could identify the projects in
22 2010 that were either delayed or stopped.

23 MS. NICHOLSON: I am aware of some of them. I know
24 that there was enrolment automation capital projects that
25 were planned. The project was planned over three stages,
26 and the latter two stages have actually been deferred to
27 2011. They're still going to go ahead but they won't be
28 done until 2011.

1 MR. FINKBEINER: We have done some other deferral and
2 work that we are no longer doing. So, for example, some of
3 the deferred projects would be things like an OR reserve
4 policy review that we had planned, a TR market review --
5 transmission rights market review that we had previously
6 planned, things of that nature where we have deferred
7 market design or development work, as an example, with a
8 change in focus to the Green Energy Act and things of that
9 nature.

10 I know Mark can speak to some of the changes in
11 information management where they have taken some
12 advantages of retirements there, too.

13 MR. WILSON: There were other projects, such as
14 information management, where we actually delayed some of
15 the implementation of the projects going forward. Some of
16 our information management work around automating reports
17 that we were generating, we reduced the -- again, back to
18 some of those efficiencies, we reduced the staff size in
19 one particular area from three down to one, and did some
20 manual process enhancements, did an inventory control of
21 those reports to actually look at what we needed and what
22 we could actually get rid of.

23 So those were a couple of the areas we also looked at.

24 MS. GRICE: Was anything stopped altogether so it
25 won't be deferred to future years?

26 MR. WILSON: Well, as I mentioned in the report, some
27 of those redundant reports, we did stop some of the reports
28 that just were no longer required.

1 MS. GRICE: Okay. Then in terms of the vacancies, are
2 some of them never going to be filled? Is that the plan?

3 MR. VANVEGHEL: Well, in terms -- what we did was we
4 had a look at 2010 attrition, and we looked to see what
5 happened to that 2010 attrition. And in 2010, we had 24
6 people who left the IESO and, of those 24 people who left,
7 ten were replaced in that job, per se.

8 We had five situations where the line manager took the
9 opportunity to realign accountabilities. The job was
10 replaced, but with realigned accountabilities, so it wasn't
11 exactly the same job. And we had ten -- sorry, eight
12 situations where the job was not replaced and the FTEs were
13 made available to other parts of the organization.

14 MS. GRICE: Okay, that's great. Thanks. Those are
15 all of my questions for salaries. Thank you.

16 **QUESTIONS BY MR. DEROSE:**

17 MR. DE ROSE: Just -- sorry, down here. Vince DeRose
18 on behalf of CME. I have a couple of clarification
19 questions on TC No. 1. Would you like me to go ahead now,
20 or do you want to do the break? I would probably be less
21 than five minutes.

22 Just with respect -- it's TC No. 1, first page. It is
23 the first set of information that you give in response to
24 questions 1(c) and 5(b) of supplemental information in
25 response to AMPCO questions. This is with respect to the
26 FTEs.

27 There are a couple of business units where the actual
28 FTEs as of December 31st are greater than both the 2010

1 budget and the 2011 business plan. I just want to
2 understand that apparent disconnect or discrepancy.

3 So, for instance, if we look at finance, the total as
4 of December 31st is 27-1/2, but both the 2010 budget and
5 the 2011 business plan are two FTEs less at 25.

6 Could you explain, I guess, first of all, why there is
7 this disconnect between your actuals in both your prior
8 year budget and your future business plan?

9 MS. NICHOLSON: Each of the business units is held
10 accountable to their budgeted FTEs, but we do look at the
11 IESO overall as a whole.

12 If -- as in the case with finance, if there is a need
13 to bring in temporary people for a short-term peak amount
14 of workload, there is an application process that is made
15 through our CEO and the SMT team itself -- senior
16 management team -- in order to fill those and exceed your
17 budget on a business unit basis.

18 MR. DE ROSE: Okay. So would -- the December 31st
19 amount, which is two over, is that a short-term anomaly?

20 MS. NICHOLSON: It is. It is temporary positions. I
21 actually had -- this is my area, so I actually had a
22 finance payables clerk that was off on a sick leave, and I
23 had to bring in a temporary resource in order to cut back,
24 fill and cover that work. I brought that temporary
25 resource in through December 31st, because it was year end,
26 even though the person was expected to return the end of
27 December.

28 We also have -- within finance, we currently have a

1 temporary resource who is looking at tools and processes
2 and trying to automate and update those. That's a unique
3 position specifically for that project, and that person is
4 also included in the 27-1/2.

5 MR. DE ROSE: Okay. So from your perspective, that
6 disconnect is not -- doesn't indicate that your business
7 plan is perhaps low?

8 MS. NICHOLSON: No.

9 MR. DE ROSE: Okay. And then I guess similar
10 questions with respect to corporate relations.

11 Again, you're 33 as of December 31st. You were 31 in
12 your budget and you are actually going down on a forward-
13 looking basis. It seems to me that your actuals are going
14 up. Your forward-looking is going down. They are going in
15 opposite directions. Do you have an explanation for that?

16 MS. NICHOLSON: I don't know the specific positions,
17 but I would assume it is a similar situation where there
18 are some temporary resources within corporate relations
19 that are there for peak workload.

20 And the IESO, overall, from a cost perspective, could
21 accommodate that as of the end of 2010, and they are not
22 expected to be continued forward.

23 MR. DE ROSE: Okay.

24 MR. WILSON: You are looking at my area?

25 MR. DE ROSE: You were nodding.

26 [Laughter]

27 MR. DE ROSE: Just on that, again, corporate relations
28 seems like an area that when -- the five key initiatives

1 that you have set out in your evidence, in combination, in
2 particular, with the green energy initiatives that you are
3 going to be undertaking, is corporate relations not one of
4 the areas that would increase, not decrease? If not, why
5 not?

6 MR. FINKBEINER: Certainly the corporate relations
7 group is key to the green energy activities.

8 Our stakeholder engagement, for example, has increased
9 tremendously. We will have a lot of training and customer
10 relation work to do as we implement the Green Energy Act
11 initiatives.

12 What we can say -- and I will have Brian check me
13 where I go a little bit of astray. He is also in that
14 group. We have done -- when we do our business plan, we
15 look at all of the work that is coming forward. We look at
16 what efficiencies there are within the historic workload
17 and what we see coming.

18 Ultimately, we plan for customer relations work to
19 say, This is what we expect for the green energy renewables
20 integration, for example. They look at their business
21 going forward, the amount of -- you see the decrease in
22 customer education, for example, here. That is work that
23 they no longer have to do. So that is an FTE, for example,
24 that within customer relations can be allocated to
25 renewables integration, for example.

26 There will be other examples within their business
27 where they can say, I can do this work. I have this much
28 work related to the Green Energy Act. Yes, they are going

1 to be key and instrumental in the success of that, but they
2 have the resources, based on this business plan, to meet
3 what we have identified as the expected workload.

4 MR. DE ROSE: Okay, thank you. I take it he didn't go
5 astray? You are nodding?

6 MR. RIVARD: He does a wonderful job.

7 [Laughter]

8 MR. DE ROSE: Thank you. Those are all of my
9 questions. Thank you very much.

10 **QUESTIONS BY MR. MACINTOSH:**

11 MR. MACINTOSH: I have one clarification question.
12 Dave MacIntosh from Energy Probe.

13 I am looking at your business plan, page 10, the
14 schematic at the bottom of the page. I realize that the
15 business plan was probably done at the end of the summer or
16 September, but is it still your plan in 2012/13 to be back
17 at the 2009 staff levels?

18 MS. NICHOLSON: If you refer to that table on the
19 bottom of page 10, you will see that there are decreases,
20 in terms of total FTEs, in 2012 and 2013.

21 Again, those are temporary positions, so they were
22 brought in for 2011 peak workload, and they are not put
23 into the business plan on an ongoing, enduring basis. The
24 regular positions are being held flat.

25 MR. MACINTOSH: Thank you. That is all.

26 **QUESTIONS BY MS. SEBALJ:**

27 MS. SEBALJ: Anyone else? Can I just ask one follow-
28 up question on the EARSLS issue? I have had time to think

1 about it now, and this is dangerous.

2 [Laughter]

3 MS. SEBALJ: I am getting the impression that this is
4 an anomaly and that you are dealing with it because you are
5 going to the new accounting.

6 I just wanted to know whether this is a treatment that
7 is either widely adopted or somehow endorsed, or whether it
8 is sort of -- you're floating it as the appropriate
9 treatment, and by that, I mean the -- using the 11 years,
10 using the EARSL method, or whether that is just -- whether
11 it is something that is accepted or acceptable from an
12 accounting perspective.

13 MS. NICHOLSON: Yes. Amortizing your unamortized
14 actuarial gains and losses over EARSL is very much an
15 accepted accounting standard.

16 And I may be a little sorry I presented it in the
17 table the way I did, but what I was trying to demonstrate
18 was that it really is no change from how we have always
19 presented our pension expense to what we are going to be
20 doing, even though we are changing accounting standards.

21 So we have always taken the unamortized actual loss,
22 amortized it over EARSL, and included it in our pension
23 expense.

24 MS. SEBALJ: I understand that. In the context of
25 moving to a new accounting standard, is that an appropriate
26 way to handle that?

27 MS. NICHOLSON: Yes. It has been discussed with our
28 auditors and our audit committee, and it is accepted.

1 MS. SEBALJ: Thank you.

2 All right. Now, I think probably everyone, including
3 Teresa, needs a break. The question will be -- it looks to
4 me like there are less questions on capital spending, so
5 why don't we try and come back and either get a coffee or
6 snack or whatever you need so that we can go into the lunch
7 hour and hopefully get done? Is that acceptable to
8 everyone?

9 Okay. So let's try and get back 25 to, 25 to 12:00.
10 Thanks.

11 --- Recess taken at 11:22 a.m.

12 --- On resuming at 11:41 a.m.

13 MS. SEBALJ: All right. If we can just get started.

14 So, moving on to the second area in the issues list,
15 which is capital spending.

16 MR. ZACHER: If I might just interject for one second,
17 Mr. VanVeghel dealt with staff costs. So if there are no
18 other questions on that, he may excuse himself, if that is
19 all right with people?

20 MS. SEBALJ: Anyone? All right, that sounds good.
21 Thank you very much.

22 MR. VANVEGHEL: Thank you.

23 MR. DE ROSE: Sorry, just one question to make sure.
24 Staff costs would have nothing to do at all with the
25 drivers to issue 3 -- sorry, with respect to the rebate to
26 market participants? It would have nothing to do with
27 that, I assume?

28 MR. ZACHER: No.

1 MR. DE ROSE: You are good to go.

2 [Mr. VanVeghel leaves hearing room]

3 MS. SEBALJ: So Robert just reminded me that we
4 covered our capital spending questions by dealing with
5 EDAC, but I don't know that that is the case with everyone
6 else.

7 Did you have other questions not related to EDAC in
8 the capital spending areas, anyone? Go ahead.

9 MS. GRICE: We have two.

10 MS. SEBALJ: Okay, go ahead.

11 **FURTHER QUESTIONS BY MS. GRICE:**

12 MS. GRICE: Sorry, I am just getting my mic on.

13 Okay, this is AMPCO Question No. 12. The reference
14 there is Exhibit B, tab 2, schedule 1, page 5, and the
15 evidence states that the projected capital spending level
16 for 2010 is 18.5 million, which is 3.5 million below the
17 approved budget level of 21.6 million.

18 Our question was what the actual spending was for 2010
19 and if any variances could be explained.

20 MS. NICHOLSON: The actual capital spending for 2010
21 was \$16.7 million.

22 On the top of the second page on TC No. 1, we have
23 provided a table in terms of the 2010 versus -- actual
24 versus what we had projected in the 2010 business plan.

25 The total difference is the 1.8 million, which is
26 largely made up of the variance on EDAC at 1.2.

27 MS. GRICE: Okay, that's great. Thank you.

28 The next question, AMPCO No. 13, relates to

1 appendix 2, which is at Exhibit B, tab 2, schedule 1. I
2 just wondered, it shows for 2011 energy modelling, which is
3 one of the key initiatives, spending in 2011 of \$200,000
4 and we just wondered -- we just want to confirm there ask
5 no spending moving forward, that that project will actually
6 be completed in 2011?

7 MS. NICHOLSON: With respect to appendix 2, that is
8 showing the capital funds or the capital projects, and
9 within 2011 there is capital money set aside for energy
10 modelling and that is for a one-time purchase of software.
11 Darren, are you --

12 MR. FINKBEINER: Yes. So once software is in place,
13 then there will be ongoing costs associated with it. That
14 will be OM&A, staffing, maintaining the model, these sort
15 of things.

16 But from a capital perspective, it is a one-time cost.

17 MS. GRICE: Okay, that's great. Thank you.

18 And I believe this is our last question. On
19 appendix 2 on the next page, which is page 18 of the
20 exhibit, it shows funding provisions, and, I'm sorry, I've
21 lost track what that refers to.

22 There are - let me see here - six initiatives or six
23 funding provisions listed, and we specifically were
24 concerned with just what the IESO energy conservation
25 initiative funding provision was for, and maybe -- just a
26 summary of the funding provision section, in general.

27 MS. NICHOLSON: The funding provisions within the
28 capital envelope are sort of ongoing, continuous capital

1 outlays that we have to put out every year, so, for
2 example, increased disk storage. As more data exists, we
3 have to increase our disk storage, and that is a capital
4 outlay. So for each year we budget a set amount of money
5 in order to cover off those types of costs.

6 With respect to the IESO energy conservation
7 initiatives, those are for ongoing energy initiatives that
8 will probably arise over the planning period. And in terms
9 of the types of examples of things where money has been
10 spent on that in the past, we had a large-scale replacement
11 of the overhead fluorescent lighting in our building. That
12 was considered part of an energy conservation effort.

13 We implemented recommendations that were given to us
14 by an energy audit, and we also pursued a LEED application,
15 and there were some capital outlays that had to happen in
16 order to get that. I think it is a declaration -- a
17 certification, is it not -- a LEED certification.

18 MS. GRICE: Okay. That is very helpful. Thank you.
19 That is the end of my questions.

20 MS. SEBALJ: Vince, did you have anything in this
21 area, or James?

22 **FURTHER QUESTIONS BY MR. WIGHTMAN:**

23 MR. WIGHTMAN: Yes, thank you. I just wanted to make
24 a comment and see your response. You provided a response
25 to VECC's second question, which is on capital spending, on
26 TC.1, page 2. I just did something quickly in my head, and
27 I noticed that it looks like, in each year, actual capital
28 spending is significantly less than budgeted. And I just

1 did this in my head, but it looks like about 8.4 million on
2 average. You spend about 8.4 million less on capital than
3 you budgeted.

4 Just if you wanted to make any comment about that?

5 MS. NICHOLSON: I guess the comment I would make is,
6 if you look at 2010, you will see that we are getting much
7 better at this.

8 Within 2010, the IESO has implemented what is known as
9 the PPMT. I believe it stands for the Project Portfolio
10 Management Team. They meet on a quarterly basis.

11 If you have capital work or project work overall that
12 you want to undertake within the IESO, you have to provide
13 either a full-blown business case or a project brief to
14 that team a month in advance.

15 The team goes through all of those briefs and they
16 prioritize them in terms of refreshing regulatory
17 requirements, system -- necessary system upgrades. And,
18 based on that prioritization, those resources that are
19 needed to complete that capital project are then given the
20 highest priority based on the ranking where they are. So
21 that will help enable us to ensure that we put out -- put
22 in place our capital plan that we want.

23 MR. FINKBEINER: Another aspect of that is, in our
24 capital planning, if you look at our business plan,
25 appendix 2, as an example renewables integration, we have a
26 \$1 million spend.

27 Those are just -- as far as renewables integration, we
28 are at a very high level design stage. We don't know the

1 specifics of the programs or the capital spend that we
2 need, what tools specifically we are going to be asking to
3 put in.

4 So some of these capital expenditures that we put in
5 here are our best estimate of what we think we need to
6 develop.

7 So those will be refined as we go through into
8 detailed design. So today we are looking at approving
9 design principles, for example, with stakeholders; nowhere
10 near the tool delivery design level, which could sharpen
11 the pencil on these. So you will see variations in the
12 budget for those, as well.

13 MS. SEBALJ: Well, that looks like it is all of the
14 questions, unless anyone -- in that area of the issues
15 list.

16 So moving, then, to methodology for calculating usage
17 fee, go ahead, Robert.

18 **FURTHER QUESTIONS BY MR. CAPUTO:**

19 MR. CAPUTO: Now, the references for this section are
20 Exhibit B, tab 1, schedule 1, which is the business plan on
21 page 9, and also Exhibit B, tab 2, schedule 1 on page 2,
22 and the IESO financial update that was filed on February
23 2nd, 2011.

24 Now, the first table on page 9 of the business plan --

25 MR. ZACHER: Robert, sorry to interrupt. Over here,
26 sorry.

27 I should have intervened. At the outset, I said when
28 we got to issue 3, that because this issue deals with the

1 proposed treatment of the surplus, that Ms. Nicholson might
2 just have some introductory comments to make.

3 So probably before you ask your questions, it might be
4 helpful if she just spoke to this for a couple of minutes,
5 and this will provide everybody with a little better
6 context.

7 MR. CAPUTO: Sure.

8 MR. ZACHER: I apologize for that interruption.

9 MR. CAPUTO: Okay.

10 **COMMENTS BY MS. NICHOLSON:**

11 MS. NICHOLSON: So over the past three consecutive
12 years, the IESO has maintained a flat fee at 82.2 cents per
13 megawatt-hour. You will notice with the rate application
14 in front of you, we are proposing a change this year in
15 terms of in the past, or since 2005, actually, we have
16 maintained an accumulated surplus account of \$5 million.

17 And in this application, we are actually asking to
18 retain an additional \$8.1 million. Based on our 2010
19 financial results, we would also be rebating to market
20 participants \$10.2 million.

21 So in terms of the application that is in front of
22 you, we are proposing to hold our rate flat yet again, and
23 to rebate \$10.2 million to market participants.

24 We have asked for additional retention on the
25 8.1 million, and that is to help us really stabilize our
26 rates over the three-year planning period. Over that
27 planning period, we are forecasting much lower demand in
28 terms of -- particularly for conservation and embedded

1 generation impacts.

2 We are projecting increased costs. As you can see, in
3 2011 we are projecting to increase our staff complement,
4 amongst other things.

5 And in terms of the rate stabilization component
6 itself, if we were to do the calculation strictly on a
7 break-even basis with our total cost less any additional
8 revenues over our expected demand, you would actually see
9 an increase in rates of approximately 12 percent over that
10 three-year planning period.

11 By maintaining or retaining the additional
12 8.1 million, we still are projecting to have inflation
13 increases in the order of 2 percent in 2012 and 2013, but
14 certainly not in the order of 12 percent.

15 We think this is a good message for the electricity
16 consumers. This is a time where electricity prices in
17 total are rising, and we know that the IESO makes up a
18 very, very small component of those prices. But it also
19 helps us address the uncertainties that we are facing in
20 the future, that we don't feel that we have been faced with
21 in the past.

22 I would be happy to answer questions at this time.

23 **FURTHER QUESTIONS BY MR. CAPUTO:**

24 MR. CAPUTO: I think you probably answered most of
25 what questions -- the first question I had was to cover.

26 Now, you mentioned part of the reason for increasing
27 the surplus to be retained to \$13.1 million is to assist in
28 rate stabilization and to address higher-than-normal risk

1 that energy volumes will be lower than assumed.

2 Could you just expand on that, why it is that this is
3 the IESO's position with respect to that?

4 MS. NICHOLSON: The IESO feels that in terms of
5 forecasting demand out over the next three years, there are
6 changes in the overall economy, and there is still a lot of
7 uncertainty in terms of economic conditions going forward.

8 With respect to our demand, as conservation
9 initiatives take hold and grow, we are not -- we don't have
10 certainty around how much of our demand that will eat into.

11 The same thing with embedded generation; as the FIT
12 contracts are actually implemented and embedded generation
13 takes hold, that will reduce the market demand that we use
14 on our rate-setting.

15 MR. CAPUTO: So is it that these uncertainties are
16 greater now than they were in past years?

17 MS. NICHOLSON: They're certainly things we have never
18 seen in past years. We are brand new to this business,
19 with the conservation and embedded generation. The FIT
20 contracts were signed in 2010. They are new things to our
21 business.

22 MR. CAPUTO: Okay.

23 MS. SEBALJ: Can I just ask, as a follow-up, that
24 there is always a possibility -- I mean, they're called
25 risks because they're risks, and there is always a
26 possibility that they won't materialize.

27 I am just wondering what happens if they don't. I
28 mean, this is a relatively unique animal, even the

1 5 million. The retention of the \$5 million surplus is
2 relatively unique. We don't see it, for instance, in any
3 of our rate-regulated utilities, for instance.

4 So now it is an additional amount. We are up to
5 13.1 million. So if the risks don't materialize,
6 presumably the surplus continues to grow.

7 And then what? I guess I will just leave it there.
8 And then what?

9 MS. NICHOLSON: We are here again next year.

10 MS. SEBALJ: Then rebating a portion back?

11 MS. NICHOLSON: And our application would reflect any
12 changes from the assumptions that we have now to the
13 assumptions that will be included in next year's plan. We
14 are here on an annual basis.

15 MS. SEBALJ: I understand that this is a good-news
16 story for people who are, you know, facing not-so-good-news
17 stories from a bill -- a rate impact perspective on a
18 regular basis.

19 But having said that, it occurred to me that at the
20 end of the day, this is other people's money. And you
21 know, in the rate context we call it, you know,
22 intergenerational equity.

23 I don't know -- I was trying to wrap my head around
24 whether it applies here, because your customers are
25 different than, you know, residential consumers, for
26 instance, but can you just tell me if you have addressed,
27 if you thought about the intergenerational equity issue and
28 how this might be problematic?

1 MS. NICHOLSON: Yes. We have discussed that, as a
2 team. We see that the rebate money is going back to the
3 marketplace through the market participants of the 10.2.

4 The surplus will be used, almost identical to someone
5 who is in front of you for a three-year rate case.
6 Instead, we are making a one-year rate case, but it is --
7 but the surplus would be used over the three-year planning
8 period. So in that case, we thought it was very similar to
9 being presented as a three-year rate case.

10 And it just helps smooth that transition. We think it
11 is beneficial to the consumers of Ontario to have a zero
12 increase in 2011 and a 2 percent, 2 percent plan, than
13 rebate everything from 2010 and look at a possible
14 12 percent increase, within a three-year window.

15 MS. SEBALJ: Right. And so is there ever -- does the
16 IESO ever foresee an end to the sort of surplus structure,
17 I will call it? Because it occurs to me that if -- I mean,
18 at some point if your -- what you said in your introductory
19 remarks is that you would see a 12 percent increase over
20 the three-year period, and instead it is going to look like
21 2 percent for the next two years after this.

22 At some point if this ever were to end, would there
23 not be a huge -- a potentially huge rate issue, some shock
24 to your customers? Or is it just the plan to continue with
25 surpluses? Or not -- obviously, you can't plan for
26 surpluses, but to plan to retain any surplus to continue to
27 rate-mitigate over the long term?

28 MS. NICHOLSON: Prior to 2005, the IESO had surpluses,

1 as well, and they were always used to offset rate increases
2 in the future years.

3 So in terms of that, it is a similar kind of context.
4 I believe the 5 million -- although I wasn't here at the
5 time -- was put in place for contingencies, because we are
6 not-for-profit and we break even and we are here every
7 year.

8 So for example, in 2007 when we had a problem with
9 ABCP, like the rest of the world, we actually had a deficit
10 of 4.3 million, and the 5 million was there specifically
11 for that contingent use.

12 MS. SEBALJ: All right. Sorry, Robert. I don't know
13 how much I threw you off.

14 MR. CAPUTO: I will just continue on, on this.

15 MS. SEBALJ: Thank you.

16 MR. CAPUTO: Now, we note that in the fees case for
17 fiscal 2005, the parties agreed to and the Board approved
18 that any accumulated surplus in excess of 5 million would
19 be returned to market participants, and this practice has
20 been continued every year since that time.

21 So my question is: What is the IESO's opinion with
22 respect to the need for Board approval to increase the
23 amount that the IESO retains in its surplus account from
24 five to 13.1 million?

25 MR. ZACHER: It may be better for me to address that.

26 Every year in our application, we have asked for
27 authority to retain the \$5 million surplus and to rebate
28 any balance.

1 And so I am not sure there is any specific requirement
2 to request that authority, but certainly we think that it
3 is part of the envelope that we are asking for, that it
4 goes to our overall revenue requirement obligation, and so
5 it is really just a continuation of the practice that we
6 have had over the last five years.

7 MR. CAPUTO: So I take it that that means that before
8 anything like this would be implemented, the IESO would be
9 waiting for the decision in this case?

10 MR. ZACHER: Yes.

11 MR. CAPUTO: All right. Now, I have some questions
12 related to -- let me just see.

13 MR. ZACHER: If I may just follow up and address Ms.
14 Sebalj's question about intergenerational inequities or
15 equity, one of the points here is this isn't a request for
16 rate smoothing or rate stabilization over seven years or
17 eight years or nine years. It is over a relatively short
18 period of time.

19 The other point is the IESO has a finite number of
20 market participants. It is somewhere in the neighbourhood
21 of 300. Is that about right? And it is just the load side
22 that pays, and there is very little turnover in those
23 participants.

24 So at the end of the day, it is in the nature of a
25 deferral, but the sort of intergenerational inequity
26 concerns that I think operate in other cases are probably
27 not as pronounced as they are in this case.

28 Of course, the IESO stakeholders its business plan

1 through its stakeholder advisory committee, which
2 ultimately represents market participants, and has had its
3 business plan, you know, favourably received.

4 MS. SEBALJ: I was actually going to ask you about
5 that. I was going to ask about turnover specifically and
6 what your -- but presumably with the renewable integration,
7 there will be some changes in those 300 market
8 participants?

9 MR. RIVARD: Largely on the generator side.

10 MS. SEBALJ: Right. Fair enough.

11 MR. CAPUTO: The reference for my next question is
12 page 9 of the business plan.

13 Now, the first table on page 9 shows "nil" for market-
14 related interest income for 2010 and 2011, and it shows 2.8
15 and 2.6 million for 2012 and 2013, respectively.

16 Page 9 also states -- and I am just going to read it
17 for the record:

18 "The actual, projected and budgeted interest
19 income earned on other real-time market
20 investments to the end of 2011 is projected to be
21 insufficient to offset the estimated investment
22 loss on the IESO's investment in Asset-Backed
23 Commercial Paper (ABCP) to the end of 2011;
24 therefore, no market-related investment income is
25 assumed until 2012."

26 Also if you refer to Exhibit B, tab 2, schedule 1, the
27 table at the bottom of that page indicates that the actual
28 loss in ABCP is \$9.1 million.

1 Now, the question I have is: Please explain how the
2 \$9.2 million actual loss in ABCP was determined. I believe
3 you started off with an initial amount of over 23 million
4 in assets that became illiquid. So I am just wondering how
5 the 9.2 million actual loss was determined.

6 MS. NICHOLSON: The actual loss was 9.1 million, and
7 the way it is determined is the \$23.1 million, which was
8 the initial purchase of the asset-backed commercial paper
9 in the real-time market, those assets were later converted
10 into holdings that we sold in September of 2010.

11 Sorry, the selling price of those assets was
12 13.9 million when they were sold in September. We had also
13 received, prior to selling, some principal repayments of
14 \$0.1 million. And it is just straight math. It is your
15 purchase price minus your selling price.

16 MR. ZACHER: One point, just to distinguish between
17 past years, when we have been asked about this in past
18 years, the amount that has been presented as a loss has
19 just been an estimated or forecast number; whereas now,
20 this is actually the number -- the assets have been
21 liquidated, so that is the loss.

22 MR. CAPUTO: Okay. So that situation has now ended
23 with this. There is no further -- you are not holding any
24 illiquid assets at the moment?

25 MS. NICHOLSON: That's correct.

26 **QUESTIONS BY MR. RICHMOND:**

27 MR. RICHMOND: Susan, was there an actual secondary
28 market for these investments at that time? Was that what

1 it was sold into?

2 MS. NICHOLSON: Yes. The holdings that you had in
3 ABCP were actually converted into different holdings.

4 MR. RICHMOND: Right.

5 MS. NICHOLSON: It was those converted holdings that
6 were liquidated in September.

7 MR. RICHMOND: Was that an actual secondary market?
8 Who paid for those, then?

9 MS. NICHOLSON: I don't know the purchaser of those
10 assets.

11 MR. RICHMOND: I just wondered. I wondered if it was
12 an actual secondary market.

13 MS. NICHOLSON: They were actually sold.

14 MR. RICHMOND: Yes.

15 **FURTHER QUESTIONS BY MR. CAPUTO:**

16 MR. CAPUTO: Okay. My next question is: Is the
17 market demand used for calculation of the usage fee
18 consistent with the forecast used in the IESO's latest 18-
19 month forecast?

20 MS. NICHOLSON: No. The market demand in the business
21 plan is taken from the May release of the 18-month outlook.

22 MR. CAPUTO: Okay. Now, could you explain the impact
23 that using the latest forecast would have on the proposed
24 2010 usage fee?

25 MS. NICHOLSON: Yes. The latest forecast or the
26 latest 18-month outlook has a reduction of 0.5 terawatt
27 hours for 2011, which roughly translates into \$400,000. It
28 would have no impact on the proposed usage fee of the 82.2

1 cents.

2 MR. CAPUTO: Okay. Just one final question in this
3 area.

4 Have the impacts of conservation and demand
5 management's initiatives been suitably reflected in the
6 market demand used in the calculation of the usage fee?

7 MS. NICHOLSON: Yes, they have.

8 The IESO meets on a regular basis with the Ontario
9 Power Authority in reviewing these numbers.

10 MR. CAPUTO: And is there anything different this year
11 or any special considerations, changes from what you have
12 done in the last few years?

13 MS. NICHOLSON: In terms of methodology in calculating
14 the fee?

15 MR. CAPUTO: No. How the demand management
16 initiatives are being considered.

17 MR. RIVARD: They would be considered in the same way
18 as they were in the past.

19 MS. SEBALJ: Can I just -- sorry.

20 MR. ZACHER: Mr. Rivard and Ms. Nicholson can correct
21 me if I am wrong, but I know that certainly the
22 conservation numbers I believe come from the OPA, and the
23 OPA provides those on a regular basis.

24 I think your question addressed conservation and
25 demand management. So some of the demand management
26 programs are actually IESO programs; is that right?

27 MS. NICHOLSON: No.

28 MR. ZACHER: I am wrong. I didn't need to clarify.

1 Apologies.

2 [Laughter]

3 **FURTHER QUESTIONS BY MS. SEBALJ:**

4 MS. SEBALJ: I was actually going to ask more about
5 that, but I think that clarifies. So you have regular
6 meetings and you basically get your numbers from the OPA
7 and you plug them in. That is how it works.

8 I am back on the retained surplus just for a second.
9 I wanted to clarify. I think in your opening remarks you
10 made clear that the usage fees that are projected for 2012
11 and 2013 already take into account the surplus. So those
12 2 percent increases already take into account --

13 MS. NICHOLSON: That's correct.

14 MS. SEBALJ: You are proposing to retain 13.1 million
15 for 2011. Do you know what -- is it 5 million that needs
16 to be retained for 2012 and 2013 for those fees to be in
17 place, or what is the proposal going forward?

18 MS. NICHOLSON: What actually happens over 2012 and
19 2013, even with the 2 percent increase in 2012 and 2013, we
20 actually eat through the entire surplus, including the
21 initial five, and are forecasting a deficit at the end of
22 2013 of \$700,000.

23 MS. SEBALJ: Okay. That is what I was going to ask
24 you was for the math.

25 I am trying to think of how to assist the panel in
26 determining whether or not retaining additional monies in
27 addition to the 5 million is appropriate, or -- the
28 5 million as a first question, but the additional 8.1.

1 And I wondered if it is possible to give them sort of
2 notionally the math around -- you have given us the numbers
3 here, but how exactly it gets eaten through. Like, how the
4 deductions are going to work.

5 And maybe what you just said is sufficient, but I was
6 trying to work through my head whether you were going to
7 continue to have surpluses for '12 and '13.

8 But what you are saying is you are likely to come back
9 with a fee submission in '12 that has substantially less
10 surplus, and then in '13, zero or a deficit.

11 MS. NICHOLSON: That is what we are planning this
12 time.

13 MS. SEBALJ: So it is pretty much straight-line.
14 There is no sort of -- you are accumulating surplus while
15 you are eating through surplus, is what I am trying to say.

16 MS. NICHOLSON: That's correct. If you actually refer
17 to page 14 of the business plan, which is Exhibit B, tab 1,
18 schedule 1 --

19 MS. SEBALJ: Page 14 you said?

20 MS. NICHOLSON: Page 14. In that appendix, it is
21 financial statements, but it does show the IESO usage fee
22 separated from all other aspects of the IESO business.

23 On the line "Operating Surplus and Deficit" that shows
24 the planned operating and surplus deficit in each of the
25 particular years.

26 Then when you go to the accumulated -- it says
27 "Surplus" line, but it is actually -- you will see it is a
28 0.7 million deficit in total, as of the end of 2013.

1 MS. SEBALJ: So meaning that as it stands now, there
2 will be an increase in fees in 2014 that may be
3 significantly more than in previous years? As it stands
4 now, all things being -- well, if you have a deficit,
5 surely, and no surplus, there will be something more than a
6 2 percent increase in 2014?

7 And I know you are not here for 2014; I am just trying
8 to understand the sort of long-term plan of what is going
9 to happen with that \$13 million.

10 MR. RIVARD: I would think if our costs and the demand
11 levels in 2014 are the same in 2013, it would be the same
12 fee, less the \$700,000.

13 MS. SEBALJ: Fair enough. Okay. Thanks.

14 MR. CAPUTO: Just to clarify that a bit more, do you
15 see the 13.1, then, continuing as the 5 million had
16 continued for a number of years? Or is this a one-time
17 situation?

18 MS. NICHOLSON: If you refer to page 14 and you look
19 at the accumulated surplus usage fee number, you will see
20 that it goes from 5 million in 2009, 13.1 in 2010, and then
21 goes across to a minus 0.7 in 2013. That is the equivalent
22 of what you are calling the 5 million and the 13.1, that
23 line there in the financial statements.

24 So it is not -- it has not been planned in this
25 business plan to maintain a surplus of 13.1 across the
26 three-year planning period.

27 MR. ZACHER: And not even 5 million.

28 MS. NICHOLSON: Not even 5 million, we are actually --

1 MR. RIVARD: I would say that in the past, the
2 5 million was -- there's a kind of stable time period and
3 the 5 million balanced it out.

4 What we are facing now is a lot more change, because
5 of the Green Energy Act, the additional costs, so this
6 really is more of a one-time event -- we are hoping -- to
7 help smooth out the kind of costs that we are seeing in the
8 coming years.

9 MR. CAPUTO: So if the surplus were to be over
10 13.1 million some year in the future, you wouldn't
11 necessarily retain 13.1 million?

12 MR. RIVARD: If next year we have more surplus -- and
13 let's hope we do -- I bet we will rebate it.

14 MS. SEBALJ: So the --

15 MS. NICHOLSON: Sorry.

16 MS. SEBALJ: Sorry.

17 MS. NICHOLSON: I'm sorry. Which is exactly the case
18 that is happening with 2010. If you can use that as your
19 base case example, when we put this business plan forward
20 through our stakeholder advisory committee and passed the
21 minister and submitted it to you, we had the 13.1
22 accumulated surplus in the plan.

23 Actual results at the ends of 2010 were significantly
24 higher than that, and we are not asking to keep anything in
25 addition to the 13.1. We are proposing to rebate
26 \$10.2 million.

27 MS. SEBALJ: I just wanted to clarify. So the table
28 in -- that you are referring to on page 14 of the business

1 plan is based on the assumptions of demand that are on
2 page 9 of the business plan.

3 So 140.4 terawatt-hours in 2012, and 138.7 in 2013; is
4 that correct?

5 MS. NICHOLSON: Sorry, can you tell me what numbers
6 you are looking at on page 9?

7 MS. SEBALJ: The outlook demand forecasts for 2012 and
8 2013.

9 MS. NICHOLSON: Right. And so we are looking at the
10 total energy volume numbers in terawatt-hours. So we are
11 looking at 148.1 --

12 MS. SEBALJ: Oh, sorry.

13 MS. NICHOLSON: -- for 2012, and 145.6 in 2013.

14 MS. SEBALJ: Okay. And so the major variable that
15 will determine how much you eat into the surplus or whether
16 you have additional surplus will be, you think, demand?

17 MS. NICHOLSON: That is where we believe our biggest
18 risk is at this time.

19 MS. SEBALJ: Okay. Thanks. Sorry to belabour the
20 point. I just wanted to get that clear. I think we are
21 done.

22 Sorry, do you have more?

23 MR. CAPUTO: No. I think we are done with that area,
24 unless the others have anything.

25 MS. SEBALJ: Yes.

26 **FURTHER QUESTIONS BY MR. WIGHTMAN:**

27 MR. WIGHTMAN: Yeah, VECC had one question about this.
28 It is Question No. 3.

1 And part (a) was just: Can you confirm that these
2 were your terawatt-hours, your -- that you, you know, had
3 forecasted in your 2010 submission?

4 And then part (b): Can you confirm these are the
5 numbers for the same years, 2010, '11 and '12 in your new
6 submission?

7 So if you could just say you can confirm them, that is
8 (a) and (b).

9 MS. NICHOLSON: Yes. I confirm them.

10 MR. WIGHTMAN: Okay. In part (c) -- and I apologize
11 for the word "significantly" in that -- but basically the
12 idea is that 2010 actual and 2011 budgeted total energy
13 volumes are greater than you reported last year, and the
14 2012 is almost the same, 0.8 percent difference.

15 The question was: Why now are you asking for an
16 increase in the surplus? And you may have actually
17 answered that. If you have anything to add -- because I
18 know you addressed this. You said it is a new animal we
19 are facing, and all of this stuff. And if there is nothing
20 more, you have answered that.

21 MS. NICHOLSON: Okay. I actually think it is a
22 0.3 percent difference between the two, so...

23 MR. WIGHTMAN: Oh...

24 MS. NICHOLSON: But you can double-check my math.

25 Really, for 2012 you are looking at one aspect of what
26 makes up our rates. So if I look at the other aspects that
27 we did propose in last year's plan, you will note that we
28 did propose an 85.6 cent fee, which is 2 percent higher

1 than what we proposed in this year's plan. So there was
2 additional money in there.

3 Last year's plan also had a revenue requirement that
4 was \$1.1 million lower than what we are projecting for 2012
5 at this time.

6 So there is other -- all I am trying to say there is
7 other variables within that, other than just the demand
8 number itself.

9 MR. WIGHTMAN: Yeah, and this question just focuses on
10 that aspect.

11 Can you -- I hope I did my division properly in part
12 (d), but is it the case that to eat up the 13.7 million
13 down to 5 million, your total energy volumes would have to
14 be 10.6 terawatt-hours less than the 153.3 forecast for
15 2011?

16 MS. NICHOLSON: Your math is correct, but the surplus
17 is not there for 2011. It is for rate stabilization over
18 '12 and '13. So it is hard to make the correlation.

19 MR. WIGHTMAN: Okay. Then the last one quoted from
20 your last submissions that the IESO is not proposing an
21 increase in its volume-based usage fee from 2009 level,
22 despite lower revenues due to a forecast reduction in
23 electricity demand and changes in workload resulting from
24 the Green Energy and Green Economy Act.

25 I just invite you to comment. In spite of that fear
26 or that risk, your surplus grew to 23.3 million. You might
27 not have anything more to say to it, but if you have any
28 comments additionally.

1 MS. NICHOLSON: The IESO is very proud of the
2 financial management that we have within the business.

3 You have seen history of where we have been in front
4 of this technical conference and have proposed rebates to
5 market participants. We are certainly not a business that
6 goes out and spends the budget just because we have an
7 approved budget to do so.

8 Yes, we do have a surplus that was unexpected in 2010.
9 \$4.3 million of that surplus had to do specifically with
10 exports. I believe our Ontario market demand was dead-on
11 from budget to actual.

12 We also had -- and James, it refers back to one of
13 your questions earlier -- the amortization. When we went
14 through our capital plan, we actually came through with
15 some increased service lives in our amortization. That
16 amounted to a variance from last year's budget of
17 \$7 million.

18 There were a couple of significant things that
19 contributed to that unplanned surplus in 2010.

20 MR. WIGHTMAN: Thank you.

21 **FURTHER QUESTIONS BY MR. DE ROSE:**

22 MR. DE ROSE: If you don't mind, I am going to jump
23 the queue. Shelley and I have just talked.

24 I have a couple of questions. All of my questions
25 will be with respect to the surplus issue, the accumulated
26 surplus.

27 First of all, would you be able to provide us with a
28 bit more of an explanation as to what has changed from

1 November, when you filed your projection of 8.1 million, to
2 over the two-month period and how it went up to 18.3?

3 MS. NICHOLSON: I don't know what exhibit number it is
4 in your materials, but the IESO did file an amendment to
5 our rate application, and I believe included in that was an
6 IESO financial update.

7 MR. DE ROSE: I have the amended. I don't know
8 whether I have the amended financial update.

9 MS. NICHOLSON: The IESO financial update.

10 MR. DE ROSE: Did it set out the drivers for what
11 occurred in that eight-week period?

12 MS. NICHOLSON: It did. It went on a line-by-line
13 financial statement basis --

14 MR. DE ROSE: Oh.

15 MS. NICHOLSON: -- that worked through the
16 10.2 million that you are referencing on page 2 of the
17 financial update.

18 MR. DE ROSE: Page 2. Are you sure it is page 2?

19 MS. NICHOLSON: Yes. If you look at the IESO
20 financial update, page 2, it looks at the 2010 actual
21 unaudited results versus the 2010 projection, as was
22 included in our business plan.

23 MR. DE ROSE: Okay, sorry. I am just seeing OM&A
24 program costs on page 2, or are you talking about the usage
25 fees?

26 MS. NICHOLSON: The table right at the very top of
27 page 2, the first line is usage fees, cost recovery for
28 service, total revenues.

1 MR. DE ROSE: Oh, okay. Sorry, that is page 1. Does
2 it say page 1 at the bottom right-hand corner?

3 MS. NICHOLSON: Mine says page 2.

4 MS. SEBALJ: I think the table you're referring to, in
5 what was filed with the parties, the table is on the bottom
6 of page --

7 MR. DE ROSE: Okay. I think we are on the same page.
8 It says "Actual 2010 Financial Results Unaudited", the
9 following table, and then the first line is usage fees,
10 unaudited 127.1, budget 122.8?

11 MS. NICHOLSON: Okay, I believe what you are looking
12 at is the results versus the budget, and I believe that
13 your question asked me about what changed from the business
14 plan.

15 So if you flip to page 2, the second column is
16 actually the business plan projection for 2010.

17 MR. DE ROSE: I see the 13.1. I guess what I am
18 trying to understand is: Did all of these changes occur in
19 November and December, or, put another way, I didn't think
20 that you were -- I didn't understand that the 8.1 was based
21 on your filed budgeted plan, but, rather, it was your
22 projection as of either November or shortly -- whenever you
23 were preparing it. August/September you would have been
24 preparing it. You had a projection. You would have had, I
25 assume, best available information at the time.

26 And something occurred in the last part of 2010 to
27 increase your projection from 8.1 to 18.3, so I just want
28 to understand that. I appreciate -- I am not challenging

1 that it in fact was 18.3. I believe you. That is what
2 these show.

3 MS. NICHOLSON: Okay. I am not even sure I am making
4 myself clear.

5 MR. DE ROSE: Okay.

6 MS. NICHOLSON: Are you on page 2 of the updated
7 financial information?

8 MR. DE ROSE: I think we are on the same part.

9 MS. NICHOLSON: Okay.

10 MR. DE ROSE: Ours is page 1 but --

11 MS. NICHOLSON: If you are on page 1, I believe that
12 you are looking at actual results versus budget.

13 MR. DE ROSE: Okay.

14 MS. NICHOLSON: The budget was done the summer of 2009
15 and was submitted in a year ago's business plan.

16 MR. DE ROSE: Yes. On our page 1, the second chart
17 says "Actual Unaudited", and then the second line is
18 "Projected in 2011 to 2013 Business Plan".

19 MS. NICHOLSON: Perfect.

20 MR. DE ROSE: We are on the same. We are on the same.

21 MS. SEBALJ: This is what we got.

22 MS. NICHOLSON: Okay.

23 MS. SEBALJ: This is what he's looking at.

24 MS. NICHOLSON: That's not what I've got. Okay.

25 MS. SEBALJ: I think it is the same information. It
26 is just in different places.

27 MS. NICHOLSON: Okay, I'm sorry. We are looking at
28 the same thing if you are looking at the second table.

1 MR. DE ROSE: Does yours have any secret information
2 that ours doesn't?

3 [Laughter]

4 MS. NICHOLSON: I now have the same table in front of
5 me as you do.

6 MR. DE ROSE: Okay.

7 MS. NICHOLSON: So the business plan numbers that were
8 projected for 2010 are actually calculated in the June/July
9 frame period of 2010. So it is not like there was a change
10 of \$10.2 million in our projection in November of last
11 year.

12 The market demand number comes from the outlook that
13 is released in May, and you will see that of the 10.2, 2.7
14 of that has to do with actually change in demand from what
15 we expected to see in May to what actually happened at the
16 end of the year.

17 MR. DE ROSE: Okay.

18 MS. NICHOLSON: In addition, there are total costs of
19 7.7 million which are different. 4.6 of those are OM&A
20 costs. And the total comes out to the 10.2 difference that
21 you were asking.

22 MR. DE ROSE: Okay. Let's take the OM&A program
23 costs, then.

24 MS. NICHOLSON: Okay.

25 MR. DE ROSE: Based on the information that you had,
26 it sounds like the outlook as of May, in the June/July time
27 frame when you looked out, you didn't anticipate that
28 4.6 million. Do I understand that right, at least at the

1 time you projected it?

2 MS. NICHOLSON: That's correct.

3 MR. DE ROSE: Okay. So what occurred after you
4 conducted the projection that led to an additional
5 unforeseen 4.6 million?

6 MS. NICHOLSON: Okay. If I can now refer you to
7 page 2 of the table that you have in front of you?

8 MR. DE ROSE: Okay.

9 MS. NICHOLSON: With respect to OM&A program costs, we
10 have identified the variances there between what we had
11 projected in the business plan and what actually occurred.

12 I believe we have addressed the \$2.1 million, in terms
13 of contract services and consultants, with the questions
14 that were previously asked by VECC.

15 MR. DE ROSE: Okay.

16 MS. NICHOLSON: We also addressed some of the staff
17 forecasting costs that had to do with the staff vacancies
18 and lower spending in expenses and training.

19 Our telecommunication cost was also \$600,000 lower,
20 and that was really derived through usage.

21 MR. DE ROSE: Okay, that helps. Thank you very much.

22 Then with respect to -- am I right that if you were to
23 remove the \$13 million that you are proposing you retain,
24 that in 2011 the rates would not increase by 12 percent?

25 That 12 percent increase would not occur until 2013;
26 is that right?

27 MS. NICHOLSON: It would be a combined increase in
28 2012 and 2013.

1 MR. DE ROSE: Okay. For 2011, do you know what the
2 increase would be if the Board did not approve what you are
3 requesting?

4 MS. NICHOLSON: If the Board did not approve the
5 addition of the 8.1 million that we are requesting?

6 MR. DE ROSE: Correct. So you retain the 5 million
7 you have always had in --

8 MS. NICHOLSON: Yes.

9 MR. DE ROSE: -- but you do not receive approval of
10 the incremental 8.3.

11 MS. NICHOLSON: Right. We would still be proposing a
12 usage fee of 82.2 for 2011.

13 MR. DE ROSE: Okay. So it would have no impact on
14 2011. It would only have an impact on 2012 and 2013?

15 MS. NICHOLSON: That's correct.

16 MR. DE ROSE: And have you -- are you able to look out
17 into 2013 and 2014 and say what the -- I guess all things
18 being equal, what the increase would be for those two
19 years?

20 I realize the combined is 12 percent, but would you
21 jump from a 2 percent increase to a 7 percent increase in
22 2013, and then incremental 5 percent in 2014, or would it
23 be a --

24 MR. ZACHER: Are you talking about 2012 and 2013?

25 MR. DE ROSE: I'm sorry, 2012 and 2013. Have you...

26 MS. NICHOLSON: I don't have the individual numbers
27 ready at hand.

28 MR. DE ROSE: That's fine.

1 In terms of the decision to retain the accumulated
2 surplus to smooth your rates over the next three years, the
3 load side that pays, have you done any analysis of whether
4 there would be rate shock? I mean, that is sort of the
5 phrase we would normally use, is that if the surplus was
6 paid out in its entirety this year, and there was the
7 12 percent increase over the next three years, would that,
8 in your view, constitute rate shock?

9 MR. RIVARD: I guess what I would say is we know the
10 environment that we are in, costs are escalating.
11 Twelve percent -- we haven't done any analysis, but
12 12 percent at a time with other escalating costs seems
13 pretty significant.

14 MR. DeROSE: Yes. And I guess just to explain from
15 our perspective or why we are exploring it, is because at a
16 time when costs are tight, a rebate is also important.

17 So the issue is, do you -- is it better to get money
18 on day one, or save money on -- you know, in the future?

19 So that is sort of the debate that we are trying to
20 understand.

21 So I take it from the answer that you haven't
22 undertaken any type of analysis of whether the increase
23 would constitute rate shock on those that --

24 MR. RIVARD: As I say, I'm not sure what "rate shock"
25 means, but 12 percent is 12 percent.

26 Our strategy has been to try and make sure that these
27 costs escalate at a rate of inflation, and that is largely
28 what we are achieving here.

1 MR. DeROSE: And would you agree that by using
2 accumulated surplus from the past to reduce the rates in
3 the future, whether intentionally or unintentionally, does
4 have the result of masking your true costs, your true rate
5 costs, on an annual basis?

6 MR. RIVARD: I am not sure -- I mean, the costs are
7 what they are. They are described in the business plan.
8 Really, this is just about making sure that the rates stay
9 pretty stable.

10 MR. DeROSE: Well, let me rephrase it, then.

11 In terms of transparency, if the Board were to approve
12 the use of the accumulated surplus to maintain a 2 percent
13 increase over the next three years, would you agree with me
14 that the average ratepayer would think that your rate
15 increases were 2 percent and that your costs were all
16 increasing at 2 percent?

17 Not that there was this line item from the past that
18 you are using to stabilize, that it -- it wouldn't be
19 readily apparent, would it, to the average ratepayer?

20 MR. RIVARD: Probably the average ratepayer wouldn't
21 pay attention to this. But for transparency, it is
22 reported.

23 MR. DeROSE: Okay. And in other rate-regulated
24 utilities -- so for instance, by way of example, Hydro One,
25 when they have dealt with issues of concerns about rate
26 shock, where they wants to stabilize rate increases, what
27 has occurred is that there is actually a plan put in place
28 to say: Okay. Over the next three years or five years or

1 seven years, we don't want rates to increase more than
2 5 percent, 7 percent, 10 percent, whatever the amount is.

3 And there is actually a deferral account, so that you
4 don't use accumulated surplus from the past but instead you
5 spread increases out into the future.

6 Is that something that you have considered doing?

7 MS. NICHOLSON: I would say nominally we considered
8 that accumulated surplus account very similar to a deferral
9 account.

10 It may not have the technical definition or be
11 proposed through Board sanctions that way, but our practice
12 is that that is how we use that accumulated surplus
13 account.

14 We are a not-for-profit organization. You would
15 always assume that the accumulated surplus is zero.

16 MR. DeROSE: Fair enough. Maybe I could rephrase it
17 this way.

18 Have you considered paying out the accumulated surplus
19 in a rebate? So that as of 2011 you are starting fresh,
20 and on a going-forward basis to the extent that you need to
21 stabilize rates, you don't pay with it from past surplus,
22 but rather you have a deferral account that would have
23 those amounts paid in the future?

24 So you have future payments as opposed to relying on
25 past surplus, which is the way that, for instance, Hydro
26 One has dealt with this situation?

27 [Witness panel confers]

28 MR. RIVARD: It is not our intention, really, to run

1 these kinds of surpluses. This is kind of a unique
2 situation. I think it is achieving the rate stabilization
3 that -- that we are looking at.

4 So I am not sure, as a matter of practice, that it
5 would really have any kind of impact beyond what we are
6 intending to do to have some more formalized process of
7 some kind of variance account.

8 MR. DeROSE: So do I take it, then, that at least in
9 this rate case -- I appreciate things may be proposed in
10 the future -- if the Board were to decide that your
11 accumulated surplus should not be retained -- so either the
12 8.3 should not be added, or alternatively, even the
13 5 million all be paid out, so that you start the year with
14 no accumulated surplus -- that at least for 2011, first of
15 all, there would be no rate impact; correct?

16 And then -- sorry, you have to say "yes" or --

17 MR. RIVARD: Correct.

18 MR. DeROSE: And then for 2013 and 2014, you would
19 have to determine whether either you increase your rate --
20 and I will -- by whatever amount you require to operate,
21 which on your calculations at the moment is about
22 12 percent.

23 I will stop there. Are we in agreement so far?

24 MR. RIVARD: Can you repeat that?

25 MR. DeROSE: I am just trying to walk through the
26 scenario to understand it.

27 If the Board were to say that your accumulated surplus
28 should be paid out in a rebate in 2011 --

1 MR. RIVARD: Yes.

2 MR. DeROSE: -- so you go into 2012 with no
3 accumulated surplus, from my perspective you would have two
4 choices.

5 MR. RIVARD: Yes.

6 MR. DeROSE: Choice number one is that you would
7 calculate what your costs are to operate, and to flow it
8 through rates, which would -- based on your calculations
9 today -- result in about a 12 percent increase over those
10 two years?

11 MR. RIVARD: Correct.

12 MR. DeROSE: That is option number one. If you felt
13 that that 12 percent increase was, for some reason,
14 inappropriate or would cause significant rate shock or
15 customer disruption, that you would have an alternative
16 that you could propose some form of mitigation process
17 through the use of deferral accounts like other rate-
18 regulated utilities have done in the past?

19 That would be an option for you?

20 MR. RIVARD: Would that mean, then, we would have to
21 borrow funds to cover the short --

22 MR. DeROSE: That would be one possible outcome. That
23 would be another option; correct?

24 MR. RIVARD: So we would be incurring interest for the
25 sake of giving money back today, I guess?

26 MR. DeROSE: Well, you -- I guess I would -- I would
27 frame it this way, that you would be incurring interest to
28 provide rate stabilization in the future.

1 Those are two options, other than what you are
2 proposing to the Board; is that fair?

3 MR. RIVARD: I guess those could be two options, yes.
4 It just seems to us that it makes sense -- given the
5 uncertainties that we are under and the surplus that we
6 have -- that we try and stabilize these rates.

7 We could look into more formalized types of
8 arrangements. I am not sure why we would want to borrow
9 forward, necessarily.

10 MR. DeROSE: But one of the options would not be
11 borrowing forward and just increasing the rates?

12 MR. RIVARD: And we could. And as we say, it has been
13 our strategy to try and keep those rates fairly stable.

14 You know, it is something we did present to the
15 minister as part of this process. It was fully accepted by
16 the minister, as well, as the kind of policies that we
17 would be looking to, to kind of implement. These kinds of
18 rate stabilization makes sense from that standpoint.

19 MR. DeROSE: Fair enough. Thank you very much. Those
20 are all my questions.

21 MS. SEBALJ: Does anyone else have anything -- oops,
22 sorry. Does anyone else have anything before -- it looks
23 like Board Staff has a follow-up question. No?

24 Okay. Go ahead, David.

25 **FURTHER QUESTIONS BY MR. RICHMOND:**

26 MR. RICHMOND: I promise I won't belabour this. I am
27 not going to ask you about this forward/backwards surplus.

28 But just one thing that you mentioned, and I just

1 thought it might be helpful for us to get it on the record.
2 I know when the IESO is looking forward only one year or
3 certainly in short term, you do your own forecasts, and,
4 indeed, I think even the OPA utilizes that forecast. I am
5 not sure.

6 But you mentioned getting a little more forward of
7 that, 2013-2014, and I know you were just building
8 scenarios for that.

9 Now, that brings up the question, then, of load
10 forecast. So we have had many Ontario load forecasts
11 before us. Previously, we had an IPSP one. I know that is
12 history now.

13 In the new long-range plan, which is ever closer to
14 us, they have a forecast for Ontario now which is obviously
15 reduced from the IPSP.

16 So I guess if you were looking to say 2013-2014 to
17 estimate revenues - and clearly the demand is the key
18 driver for that - is everyone then looking at the same
19 forecast? Are you using the same forecast that we see now
20 in front of us with the long-range energy plan, or do you
21 have your own forecast for that period?

22 MR. FINKBEINER: Mine is broken. Thanks, Susan.

23 We do create our own forecast for that planning
24 period. And depending on which organization you are
25 looking at, who may have a need for a forecast, we can't
26 necessarily quote what their sources are.

27 We do share our forecasting and we work closely with
28 the OPA, for example, to give them our expectations in

1 forecasts. How they use it, whether or not they actually
2 used it in their submission, I can't really comment. I
3 don't know what they used or what they have done with it.

4 But we do share our forecasts with other agencies,
5 like the OPA, and we do know that they take that under
6 advisement when determining their long-term energy planning
7 and these sorts of things, as well.

8 MR. RICHMOND: I wasn't so much asking what it was. I
9 think the kind of numbers they had come up with were
10 clearly reduced from the past.

11 I think they were still looking at, and I guess in
12 respect of demand, a 1 percent a year or something looking
13 forward. Is that consistent with what you had projected,
14 or had you had something more modest than that?

15 MR. FINKBEINER: I am not -- I am afraid we are not
16 really able to comment, because I don't really have the
17 OPA -- what they have used.

18 I know ours were in a modest one-ish percent increase,
19 and so on, so I am not sure what the OPA is using.

20 MR. RICHMOND: Well, I just know from what I see in
21 their long-range energy plan, which is the document that --
22 it is a public document.

23 MR. FINKBEINER: I just don't have that with me. I'm
24 sorry.

25 MR. RICHMOND: Okay, that's fair. That's all I wanted
26 to know.

27 MS. SEBALJ: I still remain hopeful that we can get
28 through this without anyone fainting from hunger. So why

1 don't we do Green Energy and Green Economy Act, because I
2 think there are some questions from a few parties, and then
3 we will see.

4 I know Board Staff has questions on smart metering
5 entity and reliability, but I think they are pretty quick
6 and I don't know if anyone else does. So let's do Green
7 Energy and Green Economy with all parties, and then we will
8 see if we can do the rest globally and try and get out of
9 here in a decent time.

10 **FURTHER QUESTIONS BY MR. CAPUTO:**

11 MR. CAPUTO: This set of questions is related to the
12 IESO's Green Energy and Green Economy Act initiatives.

13 One of the strategic objectives of the IESO is as
14 follows:

15 "Develop, re-design and adapt tools and processes
16 to efficiently facilitate the province's green
17 energy policy and respond to the fundamental
18 changes this policy introduces to the power
19 system."

20 Also on page 1 of the IESO's business plan, it is
21 stated that:

22 "The IESO will continue its leadership in
23 implementing the government's green energy
24 policy, and in facilitating innovations in the
25 way the province's bulk power system is operated,
26 with an ongoing focus on reliability and
27 efficiency."

28 So my first question in that area is: Please provide

1 a summary of activities associated with the Green Energy
2 and Green Economy Act that the IESO expects to engage in
3 for 2011.

4 For each activity, please include the estimated costs,
5 including both OM&A and capital.

6 MR. FINKBEINER: I will address that question.

7 The activities the IESO is undertaking to implement
8 the Green Energy and Green Economy Act are multi-faceted.

9 We look at a number of different areas and obligations
10 that relate to the changing supply mix. The first area I
11 will touch on is that area to ensure that the equipment,
12 devices and machinery that is connecting to the power grid
13 meets the technical requirements of the system so that it
14 operates in an ongoing, reliable way.

15 Those would be things like ensuring the connection
16 assessments for new equipment connected to the grid, the
17 transmission assessments, are all done both on time with
18 regards to the 150-day connection assessment standard that
19 was part of the act, as well as accurately, given the
20 increased volumes that we see from our historical efforts
21 in that area.

22 Once we have gone through that phase of the new
23 generation or asset life cycle, we go into what I call the
24 market entry phase, where we now have to build an
25 electronic and personal relationship with those asset
26 owners so that we have things like banking information,
27 telemetry communications, dispatch facilities in place for
28 those.

1 So that is one area where we have had to ramp up our
2 efforts to address the Green Energy Act related to just
3 pure volume and new equipment coming onto the system.

4 We take other steps that are not as technical with
5 respect to the exact devices, but more on how we plan the
6 system sort of long term. One of those items I mentioned
7 earlier today was the energy modelling tool, and what that
8 does is, if you look at our historic fleet of predominantly
9 coal, hydro, nuclear, had a very predictable -- coal, put a
10 pile of rocks in front of a building, put it in a hopper,
11 you heat it up, you burn it and you make electricity.

12 Wind doesn't operate that way. Solar doesn't operate
13 that way. There isn't the same capacity-to-energy
14 predictable ratio that you have from solar and wind that
15 you might have from a gas or coal plant.

16 So we are putting in new tools and processes to better
17 understand, so when we are doing our long-term forecasting
18 of what we can expect the capacity and installed resources
19 to provide for the province, we have tools that help model
20 those better so that we are not found in short supply
21 because we over-anticipated what we expect to get from
22 these types of resources. So that is an area of future
23 planning, this energy modelling.

24 Then we get into the more close at hand time frames,
25 both the day-ahead and real-time operational time frames,
26 where we are taking a number of other significant actions
27 to address the changing supply mix associated with the
28 Green Energy Act.

1 When we look at that bucket of work, we look at it in
2 a number of areas. First, we talked about the renewables
3 integration earlier today. That renewables integration
4 work is looking at everything from visibility in the form
5 of short-term forecasting of wind and solar resources,
6 dispatchability of those resources, where you have wind now
7 contributing and solar contributing to a number of
8 operational characteristics that they haven't done in the
9 past.

10 So, for example, our fleet with primarily gas, for
11 example, on the system, if you will, they run in a fairly
12 predictable way. Wind, it has a variable nature to it just
13 because its ambient condition is driving its output.

14 And where you have changes in wind over one period to
15 another, you have to understand what those are and make
16 sure you put processes in place to ensure that you are not
17 dealing with operational concerns, such as: Surplus
18 generation, too much for a given period of time; what is
19 your ramping capability, in other words, a rate of change?
20 As load picks up in the morning, you have to be able to
21 meet that load.

22 But when you have wind or solar changing at the same
23 time, it can be both supportive of that change or
24 exacerbating that change, creating a need to have more
25 resources to meet that change. So we are looking at
26 integration from the perspective of transmission
27 management, surplus management and rate of change
28 management.

1 Some of the other work that we are doing for renewable
2 closer at hand, day-ahead planning, is we are looking at
3 the industry standards, what is emerging within our North
4 American context from the NERC, the North American Electric
5 Reliability Corporation, some of the new standards they
6 have, NPCC, the North American -- the Northeast Power
7 Coordinating Council, and also the IESO standards.

8 What we are looking at in those regards would be
9 things like: Does our operating reserve, those assets that
10 we keep on hot standby to respond to a contingency, does
11 that change? If you have 5,000 megawatts of wind on the
12 system, blowing at 4,000 megawatts of output, and the wind
13 dies, what do you do to replace that? Is it the same
14 operating reserve we have today, or is it a new product?

15 Do you have a different product where -- we often look
16 at operating reserve as: What happens if something fails?
17 Well, in the context of wind and solar, a failure could be
18 something that is just unpredicted. In other words, you
19 are sitting at 1,000 megawatts of wind and it jumps up to
20 2,000 unexpectedly.

21 We don't have a reserve product to deal with that, so
22 we have to assess whether or not new standards, for
23 example, are built to deal with these types of new
24 operating characteristics of the fleet.

25 Then we can go on when we look at things like just
26 changes in the way we have done business. We have got a
27 new fleet that operates completely differently. We've got
28 FIT resources that are going to -- as we have identified

1 earlier -- increase in number of actual number of
2 participants in this sector tremendously, based on the
3 number of contracts we have seen, and that gives rise to
4 things like additional resources in the control room.
5 These are the people who are going to be on the phone in
6 real time, trying to manage these operational
7 characteristics that come with this new fleet.

8 So when you look at our activities and to summarize
9 around the Green Energy Act, we have some of those
10 technical things around connection assessment, some of our
11 long-term planning, energy modelling and how we see the
12 system operating long-term, as well as the short term and
13 actual nuts-and-bolts integration of this new supply mix.

14 Going to the second part of your question, we talk
15 about the costs of those. It is kind of two-fold.

16 We have some capital projects that we have identified
17 in the business plan. If you look at the -- our business
18 plan, there is about \$6.5 million that we have earmarked
19 for renewables integration.

20 I mentioned earlier in some of my other testimony that
21 this is a best assessment of what we have seen other
22 jurisdictions do, through our conversations and research
23 with them.

24 We are in our high-level design phase, so we don't
25 have the detail tool design and what it would actually take
26 to put X piece of equipment in service in our control room
27 versus others' experience.

28 But we've tried to take lessons learned from other

1 capital projects, such as EDAC, that we have had
2 internally, as well as look at some of our partners in
3 other jurisdictions that have similar platforms that we
4 use, and we can get a better understanding of their costs.

5 We do have the \$200,000 capital for the energy
6 modelling, and we have earmarked about \$800,000 for 2010
7 and '11 for centralized forecasting. A hundred thousand of
8 that 2010 dollars was brought forward or brought -- pushed
9 back into 2011, because of the scheduling of work that we
10 have got completed.

11 So that is from a capital perspective.

12 From an OM&A perspective, we did, again, talk this
13 morning about these programs overarching every business
14 unit within the IESO.

15 It is kind of hard to accurately articulate that this
16 -- 10 percent of this person's time was specifically Green
17 Energy Act when some of these activities are sort of
18 intermeshed and intermingled with their normal course of
19 business. But suffice it to say that from an OM&A
20 perspective, the business plan that we have proposed
21 addresses the OM&A requirements for our Green Energy
22 activities.

23 There are some that we can be more specific about,
24 that we talked to already today, where we talk about the
25 six FTEs for the control room at about \$900,000, but others
26 are going to be within the general business envelope of
27 those existing business units.

28 I go to the connection assessment area where we are

1 going to increase the number of FTEs and some work there,
2 but they're doing connection assessments not just for Green
3 Energy; they're doing connection assessments for
4 transformer rebuilds for Hydro One, for example.

5 So it is not as easily discernible to be able to break
6 it down in the OM&A category as it is capital.

7 MR. CAPUTO: Thanks. Thanks for that. That was very
8 detailed.

9 With respect to the staff resources that are needed to
10 undertake these activities, we may have touched on it in
11 earlier parts, but can you just refresh for us what
12 additional staff resources are needed to undertake that
13 work?

14 MR. FINKBEINER: I will give you a shorter answer for
15 this one. Seventeen of the 29 requested staff increases
16 are for the Green Energy activities.

17 MR. CAPUTO: Thank you.

18 **FURTHER QUESTIONS BY MS. GRICE:**

19 MS. GRICE: I just have one quick question, and I
20 think you touched on it briefly.

21 It has to do with the enhanced forecasting for GEA
22 initiatives that was in the last fees case, EB-2009-0377.
23 And the capital funding is shown at Exhibit B, tab 2,
24 schedule 1, in the table on page 6.

25 And the work was for enhanced forecasting in 2010.

26 I guess my first question is if you could explain
27 exactly what that capital amount was for, and then it has
28 been deferred to 2011, and just an explanation as to why.

1 MR. FINKBEINER: The centralized forecasting is what
2 we call it in our vernacular, is a new activity that the
3 IESO is basically forced to undertake around Green Energy.

4 Its primary need is to take the variable generation,
5 like solar and wind, and take its unpredictable
6 characteristics and make it more predictable.

7 So there are entities and organizations out there that
8 have become very adept at forecasting what wind and solar
9 will do in a day-ahead, hour-ahead and real-time timeframe.

10 It is an emerged best practice across all of North
11 America and largely the world to have a centralized process
12 within these jurisdictional footprints, to have a
13 centralized forecasting approach so that you can build into
14 your operations: Oh, you are going to get 1,000 megawatts
15 of wind today versus two megawatts of wind versus 5,000
16 megawatts of wind, and you can plan and operate around a
17 much more confident level of expected output.

18 The work around the capital 2010 was we had hoped to
19 be at a point where we were modifying our systems to
20 integrate forecasts that we were getting from centralized
21 vendors, or a centralized forecasting vendor.

22 We haven't gotten to the point where we had to spend
23 capital within the 2010 timeframe. What we did get to is a
24 defined business case, our high-level design around what
25 forecast services we want from the vendors and additional
26 research, but it was all under OM&A work.

27 So we had a significant effort that was attracting
28 OM&A dollars, but not capital dollars.

1 We have issued -- I think it was February 9th -- an
2 RFP for a centralized wind forecast vendor, and that will
3 start to initiate the capital spend, getting information
4 conduits to and from the vendor and the IESO.

5 We give them met data; they give us a forecast
6 quantity. We start changing our systems to integrate those
7 forecast quantities.

8 So that is how the capital spend will now be utilized
9 in 2011.

10 MS. GRICE: Okay. That's great. Thank you.

11 MR. RICHMOND: Oh, I turned it off.

12 Darren, that was an excellent answer. I have a short,
13 I promise you, a very short follow-on.

14 MR. FINKBEINER: I can't promise a short answer.

15 **FURTHER QUESTIONS BY MR. RICHMOND:**

16 MR. RICHMOND: Well, you can go as long as you want.

17 I understand your centralized forecasting, and I
18 understand your renewables desk, I think, insofar as I need
19 to understand it.

20 With the renewables that are connected that are
21 embedded into distribution systems, so they're under
22 control of distribution operator, what is that interface
23 that you will use to -- well, first, to telemetering them
24 or actually asking that operator to do something?

25 I am not quite certain of that piece.

26 MR. FINKBEINER: I can -- I will try and briefly
27 expand on that.

28 MR. RICHMOND: Yes.

1 MR. FINKBEINER: As you heard through the usage
2 calculation, the embedded resources do affect what we see
3 as demand to serve.

4 As a result, if there are, let's say, 3,000 megawatts
5 of installed solar and wind on the distribution system.
6 They're not market participants in the classic sense of the
7 IESO-administered market.

8 MR. RICHMOND: Right.

9 MR. FINKBEINER: But if on a Monday they are going to
10 have 100 megawatts of output from that 3,000 megawatts and
11 on Tuesday you are going to have 2,000, it really changes
12 what we need to schedule around things like large unit, gas
13 unit, commitment -- import/export commitment, these sort of
14 things.

15 So it is critical for the IESO to understand how that
16 forecast of the distribution demand is going to be impacted
17 by these embedded resources.

18 Our centralized forecasting program is reaching out to
19 the LDC and other embedded facilities that are 5 megawatts
20 in size or greater, and we will be forecasting for those
21 facilities.

22 Our first expectation is we will not be actively
23 dispatching or asking the LDC to move those resources, but
24 we want to know what they are doing, and that is why we
25 call it a bit of a visibility -- it is part of our
26 visibility package.

27 That said, the IESO is coordinating with the LDCs.
28 Our objective is to implement the Green Energy Act

1 initiatives with the lowest economic hurdle possible. And
2 every LDC that we have a relationship with already provides
3 us telemetry.

4 So going to your point around telemetry, We can see
5 every LDC on the system, its breaker status, its output,
6 these sorts of things. We already have an electronic link
7 with them into our control room.

8 Those LDCs are asking for electronic communications
9 with their embedded generation. So instead of the IESO
10 saying, Hey, we are going to start forecasting for you,
11 embedded generator, please give us a new link all by
12 yourself, we are exploring technologies that reduce the
13 barriers, as well as relationships where the LDC adds maybe
14 some additional information to their communication with the
15 generator, and then pass that on to us.

16 So we are looking at leveraging existing processes,
17 not creating new costs or burden on those facilities.

18 In turn, we also have a product -- as part of our
19 relationship in developing, improving our relationship or
20 expanding our relationships with LDCs, we now have a
21 product that is useful for them. We know what those
22 generation units on their system are going to be operating
23 a day ahead, hour ahead and real time, and that would be
24 useful, because they are, too, an operator. They're a
25 distribution system operator, and knowing what flows are
26 going to be on their system is also beneficial to them.

27 So they give us some information through these
28 conduits. We can give them information. Then both the

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1 transmission and distribution system are operated more
2 efficiently with sort of the lowest cost that we can
3 establish, hopefully.

4 MR. RICHMOND: That is exactly what I wanted to know.
5 Thank you.

6 MS. SEBALJ: Anyone else on this, in this area?

7 Okay, so moving on, then, why don't we do -- I think
8 we have two more questions, two more question areas, smart
9 metering and reliability.

10 MR. CAPUTO: Yes.

11 MS. SEBALJ: Why don't we do those together, and then
12 any questions that the other parties have, they can do
13 together? I guess I should mention if anyone absolutely
14 needs to bust out of here, we can take a break, including
15 you, Teresa. So just let me know.

16 **FURTHER QUESTIONS BY MR. CAPUTO:**

17 MR. CAPUTO: The next set of questions is related to
18 the smart metering initiative. The reference for my
19 questions is Exhibit A, tab 1, schedule 1, page 2.

20 Now, the evidence indicates that:

21 "Smart Metering Entity ('SME') costs, including
22 both IESO internal and contracted expenses, will
23 be recovered through a separate regulatory
24 mechanism from the IESO usage fee that is charged
25 to wholesale market participants. The IESO is
26 therefore not seeking to recover any costs
27 relating to performing its role as the SME..."

28 So my question is: Please explain how the IESO

1 ensures that costs associated with the smart metering
2 entity are collected and charged separately from all other
3 IESO costs.

4 MS. NICHOLSON: The IESO ensures that these costs are
5 collected and tracked separately through unique activity
6 codes that are within our time reporting system and in our
7 financial information system.

8 So any time anyone works on a smart metering activity
9 within the IESO, whether they are a smart metering
10 dedicated employee or someone like I mentioned earlier
11 within finance, within legal, within regulatory, there are
12 charge types within our time reporting system where those
13 costs are collected and that time is tracked and held
14 separately.

15 The same with activities within -- and those
16 activities align with our financial information system. So
17 any costs that come through, in terms of the contracts for
18 vendors or staff expenses, even, those costs are all
19 collected on an activity basis and kept separate.

20 MR. CAPUTO: Okay, thank you. Could you update us on
21 the status of the implementation of the time-of-use pricing
22 and whether or not it is on schedule to be completed in
23 June of 2011?

24 MR. RIVARD: I can do that. Let me first say that we
25 are working very closely with the LDCs to make sure we are
26 bringing them on to the MDMR, the meter data management and
27 repository, and we are expecting that by near the end of
28 the year we should have about 4 million of our customers --

1 4 million of the 4.6 million customers, that meter data
2 will be processed by that time period.

3 In terms of the time of use, the OEB is monitoring the
4 process on this. Both the LDCs and ourselves have to
5 submit monthly updates of that progress. The OEB does
6 provide periodic reports of that progress, as well.

7 And so that is all being taken care of as part of that
8 OEB monitoring process.

9 MR. CAPUTO: So is that June 2011 date still valid
10 or...

11 MR. RIVARD: As I say, we will be having four of the
12 4.6 million customers on the meter -- and their meters
13 being processed through the MDMR by that time, or around
14 that time.

15 MR. CAPUTO: Thank you.

16 There is one other question. When is the IESO
17 planning to file its application with respect to recovery
18 of the SME costs?

19 MR. RIVARD: Right. Well, as part of another
20 proceeding, we kind of gave an update on this, a recent
21 proceeding before the OEB in terms of the SME licence.

22 We see our role as transitional. Where the SME, in
23 order to -- because of our expertise and in bringing
24 together all of the LDCs to make sure we can bring them on
25 to the MDMR -- and the LDCs have been playing a very
26 interested role in that, and of course it is important
27 activity for them. The meter to bill process is important
28 to their key work. So they are fully engaged in that.

1 Also, because that is such a key part of their work,
2 we see them as being, over the long term, in control of the
3 MDMR. And so as we announced in the -- or as we mentioned
4 in our smart metering entity licence application, that we
5 have signed an MOU with the EDA and will essentially
6 transition the governance over to the EDA.

7 And for that to happen, of course, we would have to
8 get government concurrence so that the new entity could be
9 the SME in the required changes and regulation.

10 So what we are anticipating is we are going to
11 continue to work to bring the LDCs on to the MDMR, and
12 towards the end of the year we are hoping that this is
13 largely completed.

14 Once that is done, we will jointly, with the EDA, seek
15 government concurrence so that they may be -- so that we
16 can allow for this kind of transition, and on or about that
17 time there would be a filing for cost recovery.

18 MR. CAPUTO: So are you saying that the application
19 for the fees case of the SME will likely not come until
20 sometime next year?

21 MR. RIVARD: On or about that time; that's correct.

22 MR. CAPUTO: Because I guess during the fees case last
23 year, there was a target date of April 2010. So what has
24 happened that seems to be deferring this so much?

25 MR. RIVARD: Well, we continue to -- our discussions
26 with the EDA in terms of governance and some of the
27 arrangements around the LDCs' involvement in that, and that
28 kind of progressed through the summer and into the fall.

1 And that is largely what we were involved in during that
2 time period.

3 MR. CAPUTO: Have there been new developments, new
4 requirements or directives?

5 It seems that almost every year we seem to be about
6 the same stage when it comes to waiting for that
7 application.

8 MR. RIVARD: Well, I think the signing of the MOU and
9 making it public, and the recent smart metering entity
10 licence application giving us a permanent licence for five
11 years, would be significant things that happened over that
12 time period, for sure.

13 MR. CAPUTO: All right. The next area of questions is
14 reliability.

15 Page 1 of the IESO's business plan states that:

16 "Maintaining reliability of Ontario's bulk power
17 system continues to be the cornerstone of the
18 IESO's mandate."

19 And on page 5, it states that:

20 "As Ontario's supply mix changes, our current
21 focus on capacity will no longer be adequate to
22 ensure reliability of supply in a world with high
23 penetration of variable renewable resources,
24 i.e., resources that have no assured fuel supply
25 to maintain their output."

26 So my first question on reliability is please explain
27 the IESO's approach to ensure reliability as Ontario's
28 supply mix changes.

1 MR. FINKBEINER: I'll refer you back to that longer
2 answer that I gave for question 17, I believe it was.

3 We are looking at -- just, in brief, there is
4 renewable integration activities, whether it be the
5 connection assessment process, energy modelling, the
6 developing new standards, and so on.

7 Essentially, all of those things are focussed, in part
8 if not in whole, to reliability. Things that I mentioned
9 during that discussion were the management of surplus base
10 load generation going forward, where we have instances of
11 more nuclear must-run water and wind than you would have
12 for domestic demand and exports, your load-following
13 capabilities, your dispatchable -- your dispatch management
14 for transmission and things of that nature.

15 So essentially when you look at what are we doing for
16 reliability, renewables integration work in its broad form
17 helps us with that, and that includes everything of
18 emerging standards and tools and systems and processes.

19 And then we go into -- to augment those new processes,
20 we do augment with staff, such as control room operations
21 and the like.

22 MR. CAPUTO: Well, thanks for that answer.

23 My next question is please comment on the IESO's
24 readiness to maintain reliability during the 2011 summer
25 peak load period.

26 MR. WILSON: We are in a fortunate position this year
27 with adequacy margins going through the summer peak load
28 period. We are obviously positive, given the resources

1 that we've got right now.

2 Relating it back to the changing supply mix, our
3 proportion of renewables is still relatively low in
4 proportion to the rest of the resource mix. So it isn't
5 causing us significant concerns at this time.

6 All of the activities that Darren has been talking
7 about, preparing ourselves for the future, will help us
8 manage that as we go forward. But for this particular
9 summer period, we don't have any reliability concerns that
10 will require any specific actions to address.

11 MR. CAPUTO: Thank you very much.

12 **FURTHER QUESTIONS BY MR. WIGHTMAN:**

13 MR. WIGHTMAN: I have just got one question following
14 up on the smart meter initiative. And I know it is getting
15 ahead a bit.

16 Have you thought about what kind of mechanism you
17 would be proposing to recover these costs?

18 MR. RIVARD: Well, we have certainly given some
19 thought, but as I mentioned, given the nature of the
20 transition we are looking for, it is probably best to leave
21 that to that new entity, to also give their thought to it.
22 So it is probably best to leave it to that process.

23 MR. WIGHTMAN: Okay. Then just a quick follow-up on
24 that.

25 So when you talk about retaining the accumulated -- a
26 certain amount, a large amount of the surplus -- and you
27 mentioned the demand, but then there may be some cost
28 pressures -- would any of those cost pressures that are

1 feeding into this proposal to keep a larger surplus have to
2 do with the smart metering?

3 MR. RIVARD: Oh, not at all. Those costs are totally
4 separate.

5 MR. WIGHTMAN: Thank you.

6 MS. SEBALJ: Vince or David, anything? Anyone?

7 All right. I believe unless anyone is going to jump
8 up in the next five seconds --

9 MR. CAPUTO: Can I just clarify one thing?

10 MS. SEBALJ: Sure. Leave it to Board Staff.

11 MR. CAPUTO: Just one thing with respect to the smart
12 metering entity.

13 As far as the application for the recovering of the
14 costs, I wasn't too clear. When do you expect to be filing
15 that? Is it -- do you have a target date?

16 MR. RIVARD: Well, what we want to do is make sure
17 that the LDCs are hooked up to the MDMR, the bulk of the
18 customers are on time-of-use pricing.

19 At that point in time, the EDA and ourselves would
20 seek government concurrence to essentially allow them to be
21 the SME, through this MOU that we have.

22 And once we have that process in place, that is when a
23 rate hearing would best happen.

24 MR. CAPUTO: But what date are you looking at? Can
25 you give us a guess?

26 MR. WILSON: We're looking to have most of the
27 customers on the MDMR metering time period by the end of
28 the year, and that would be kind of the time period where

1 it starts to make more sense for us to proceed by seeking
2 government concurrence on the new SME.

3 MR. ZACHER: Just one thing to add to that. It is not
4 possible to transition from the IESO to the new governance,
5 the new LDC governance, without a government regulation.

6 So that is another trigger. So once all of the -- all
7 or substantially all of the LDCs are enrolled on the MDMR
8 and people -- most people are transitioned to time-of-use
9 rates would be the appropriate time for the IESO and the
10 new LDC entity which is going to govern this smart meter
11 entity to then jointly request of the government that a new
12 regulation be passed to allow this transition to occur.

13 And when that happens would be the reasonable time, as
14 well, to then come before the Board to have the rates
15 recovered, costs recovered.

16 MR. CAPUTO: So at this time, you are not expecting
17 that until sometime early next year, then; is that fair to
18 say?

19 MS. SEBALJ: I think what they are saying is it isn't
20 possible to predict, because it involves government
21 regulation.

22 But I did want to ask on that, on the related note,
23 are you anticipating a combined fees case at that point?
24 Or a smooth transition over?

25 I am mindful of -- this kind of reminds me of when the
26 OPA was a government entity and then became not, and we had
27 sort of a fees case.

28 I am just wondering what that is going to look like,

1 because there is going to be fees that the IESO wants to
2 recover sort of cleanly that are IESO, and if this
3 transition happens, then are we talking about a new SME and
4 a new fees case or -- you don't know?

5 MR. RIVARD: Yes. I think we will still resolve that
6 as the time gets closer.

7 MS. SEBALJ: Okay.

8 MR. RIVARD: But at this point, it is not set in stone
9 how we will do that.

10 MS. SEBALJ: All right. I think we are done.

11 Thank you so much for pushing on so that everyone can
12 start their long weekend a little bit earlier, potentially.

13 MR. ZACHER: Thank you.

14 MS. SEBALJ: And yes, thanks for being here. Enjoy
15 lunch.

16 --- Whereupon the conference concluded at 1:20 p.m.

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