

Undertaking 29

Re: Discussion of reduction related to overtime from 2014 vs. 2015 test year – Mr. Henderson advised that the 3.4 million that Liberty had put forward was an incorrect number. Request to undertake to provide the correct number.

In section of the Final Report regarding overtime, Liberty correctly notes that with respect to 2014, Hydro's revenue requirement calculation uses five (5) months of actual and seven (7) months of estimated 2014 costs, whereas Liberty, in its analysis, used actual costs for the full year, which were subsequently available. Liberty specifically noted in this regard at page 42 of its Final Report:

"Data did not exist to make practicable a reconciliation of those actual dollars with the partially estimated costs that Hydro used in its 2014 revenue requirements calculation. Neither could Liberty reconcile the actual 2014 costs that Hydro provided to Liberty with the 5 months of actual cost data the Company used in making that 2014 revenue requirements calculations."

To the extent that the Board may accept any of Liberty's recommendations, to ensure clarification regarding Liberty's use of actual costs in comparison to Hydro's filed revenue requirement, Hydro at pages 23-24 of its Reply, provided the following comments on 2014 overtime:

"2014 Overtime

Liberty compared the overtime in 2014 to the annual average overtime hours for the period 2011-2013 and recommended a disallowance of approximately \$3.6 million on the basis that this incremental overtime would not have been required but for the actions of Hydro, which Liberty determined not to be prudent. In determining their proposed adjustment, Liberty noted that a portion of the overall incremental overtime dollars spent by Hydro was in relation to the capital projects that Liberty was examining and thus was appropriately removed from the overtime calculation to avoid double counting. However, Liberty's development of the approximately \$3.6 million disallowance is based upon their comparison of 2014 actual expenditures versus 2011-2013 average actuals. Hydro is not applying for recovery of 2014 actuals but is applying for recovery based on its 2014 test year filing. It is obviously not appropriate to impose a disallowance based on actual dollars spent where those are not the dollars being sought for recovery in the first place. Any proposed disallowance must only relate to the costs being sought for recovery by Hydro.

Thus, using the same methodology as Liberty by using 2014 test year revenue requirement instead of 2014 actuals the revised calculation (excluding total capital overtime) yields a figure of \$493,145. As with Liberty's analysis, the calculation is net of capital in relation to capital projects Liberty was reviewing, to avoid double counting. As well, Hydro does not believe there is any rationale to disallow costs for capital overtime in relation to prudently incurred capital projects."