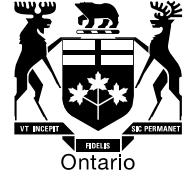


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BY E-MAIL

February 16, 2011

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St., 27th Floor
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Board Staff Interrogatories – Accounting Update February 9, 2011
2011 Electricity Distribution Rate Application for Toronto Hydro-Electric
System Limited
Board File No: EB-2010-0142**

Please find the attached Board staff interrogatories related to the Accounting Update in the above proceeding. Please forward the following to Toronto Hydro-Electric System Limited and all other parties to this proceeding.

Sincerely,

Original Signed By

Martin Davies
Project Advisor, Applications & Regulatory Audit

Encl.

Board Staff Interrogatories
2011 Electricity Distribution Rates
2011 Test Year: Accounting Update
Toronto Hydro-Electric System Limited
EB-2010-0142

- 1) **Ref: BLG Letter January 26, 2011, Toronto Hydro-Electric System Limited (“THESL”) – EDR 2011 OEB File No. EB-2010-0142 CGAAP Accounting Update, p.2**

It is stated that:

“In addition, THESL also intends to submit evidence of final approval from its auditors regarding the CGAAP Accounting Update, although it is not clear whether THESL will have this approval in time to file it together with the other CGAAP Accounting Update materials filed above.”

Please provide a status update on this final approval. Please discuss whether or not there is any possibility that the process of obtaining final approval could result in further revisions to any of the filed numbers.

- 2) **Ref: BLG Letter January 26, 2011, Toronto Hydro-Electric System Limited (“THESL”) – EDR 2011 OEB File No. EB-2010-0142 CGAAP Accounting Update, p.1 and Exh Q1/T2/S1, pp.1-2**

It is stated in the first reference that:

“Unfortunately, the continuing uncertainty respecting the treatment of rate-regulated entities under IFRS has compelled THESL to delay the implementation of IFRS until 2012. Nevertheless, THESL is still required to make certain accounting estimate changes under CGAAP to reflect the new, and much better accounting information gathered in the process of transitioning to IFRS.”

Please discuss the process by which THESL determined that the Accounting Update would be necessary, including when THESL was able to make the determination that it would be required and what event led to this decision. Please discuss in the context of the deferral of the adoption of IFRS for one year to January 1, 2012.

- 3) **Ref: Exh Q1/T2/S1, p.3**

It is stated that in the third quarter of 2009, THESL commissioned a review by Kinectrics Inc. to serve as the basis for assigning useful lives to distribution system assets for the purposes of IFRS reporting and that in April of 2010, the Board released for comment a similar report prepared by Kinectrics Inc.

Please provide a summary of any significant differences between the Kinectrics study undertaken for the Board and the similar report prepared for THESL.

4) Ref: Exh Q1/T2/S1, pp.3-4

It is stated that:

"In the fourth quarter of 2009, THESL also conducted a review of the useful lives of its building facilities, including both administrative and station buildings, for the purposes of IFRS reporting. THESL was assisted in this review by Pinchin Environmental Ltd., and the results of this review allowed THESL to reassess useful lives by asset and/or component types with respect to specific facilities. The OEB Kinectrics report also provided useful life ranges related to buildings found in utilities across Ontario. Useful life ranges provided in the OEB Kinectrics report were similar to those determined by THESL facilities management in the buildings review."

- a) Please describe the process by which Pinchin was engaged and why they were chosen.
- b) Please state whether or not Pinchin prepared any reports for THESL. If yes, please provide either a copy of such reports, or a summary, specifying any significant differences between any Pinchin recommendations and those of the Board Kinectrics report. If no such reports were prepared, please clarify the nature of the assistance provided.

5) Ref: Exh Q1/T2/S1, p.5

It is stated that:

"As of January 1, 2010, THESL personnel involved in the Engineering Capital allocation began to record their daily activities to either capital or overhead/administrative projects using timesheets. Through this process, it was determined that approximately 65 percent of the costs previously allocated to capital through the Engineering Capital allocation represented costs that were directly attributable to assets, while the remainder of the costs represent overhead and/or administrative tasks performed by such personnel that were not directly attributable to the assets."

- a) Please clarify whether or not this is a change that was required by IFRS, or was a non-IFRS related change determined as necessary due to the new information arising from the process changes undertaken for the IFRS initiative, or other factors.
- b) Please state when THESL made the determination that approximately 65 percent of the costs previously allocated to capital through the Engineering Capital allocation represented costs that were directly attributable to assets, while the remainder of the costs represent overhead and/or administrative tasks performed by such personnel that were not directly attributable to the assets.

6) Ref: Exh Q1/T2/S1, p.6

- a) Please state whether or not the changes discussed under “Payroll Burden (Standard Labour Rates)” are required by IFRS, or are not required by IFRS, but were determined as necessary as a result of IFRS-related reviews, or other factors.
- b) Please state when THESL made the determination that these changes were required.

7) Ref: Exh Q1/T2/S1, p.7

- a) Please state whether or not the changes discussed under “Stores Operation (Materials On-Cost)” are required by IFRS, or are not required by IFRS, but were determined as necessary as a result of IFRS-related reviews, or other factors.
- b) Please state when THESL made the determination that these changes were required.

8) Ref: Exh Q1/T2/S1, pp.7-8

- a) Please state whether or not the changes discussed under “Rolling Stock Operation (Vehicle Hire Rates)” are required by IFRS, or are not required by IFRS, but were determined as necessary as a result of IFRS-related reviews, or other factors.
- b) Please state when THESL made the determination that these changes were required.

9) Ref: Exh Q1/T2/S1, pp.8-9

Table 1: “Impacts Summary – Revenue Requirement” shows a decrease in the 2011 Base Distribution Revenue Requirement of \$23.1 million, arising from the Accounting Update.

This decrease is described as “mainly driven by a decrease in depreciation expense due to extended fixed asset useful lives, partially offset by incremental OM&A expenses as a result of changes to capitalization practices.”

Please provide two additional tables in the format of Table 1 with the first table showing only the impacts of the decrease in depreciation expense due to extended fixed asset useful lives and the second showing only the incremental OM&A expenses as a result of changes to capitalization practices.

10) Ref: Exh Q1/T2/S1, p.14

It is stated that:

“The development of the rates from the updated Revenue Requirement and Revenue-Cost ratios maintains the fixed-variable split as originally filed (2011 Fixed variable split maintained at 2010 approved levels, with the exception of the GS 1000-4999 kW and Large Use classes where the fixed component has been lowered due to being higher than the ceiling level calculated in the Cost Allocation Model).”

Please provide alternate versions of Exhibit Q1, Tab 2, Schedule 10 and Exhibit Q1, Tab 2, Schedule 11 on the basis that the revenue-cost ratios and fixed component adjustments arising from the Accounting Update are made for all classes rather than just the GS1000-4999 kW and Large Use classes.

11) Ref: Exh Q1/T2/S2/p.1

Table 1: “Summary of Capital Budget” provides THESL’s capital budget for both the 2011 Test year as filed and as per the Accounting Update. While most categories of capital expenditures have decreased as a result of the Accounting Update, some have not.

For the categories where there has been no decrease, please provide an explanation as to why this is the case.

12) Ref: Exh Q1/T2/S7-2

This schedule contains the Kinectrics study “Toronto Hydro Electric System Useful Life of Assets.” The study is dated August 28, 2009, almost a year before the present application was filed.

Please state why THESL was unable to incorporate the results of this study into the present application at the time of filing.