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March 23, 2011

via RESS e-filing – signed original to follow by courier

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
PO Box 2319, 2300 Yonge St, 27th floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Application by 1798594 Ontario Inc. for a distribution licence;
Applications by Toronto Hydro Energy Services Inc. (“THESI”) and
1798594 Ontario Inc. for leave to sell street lighting assets; and
Application by Toronto Hydro-Electric System Limited (“THESL”) and
1798594 Ontario Inc. for leave to amalgamate
Board File Nos. EB-2009-0180, EB-2009-0181, EB-2009-0182 and
EB-2009-0183**

THESL received interrogatories from Board Staff, Schools Energy Coalition, and the Electrical Contractors Association of Ontario and the Greater Toronto Electrical Contractors Association. Pursuant to Procedural Order #4 from the Board on February 18, 2011, THESL has reviewed the interrogatories received and today filed electronic responses with the Board. The requisite two sets of hardcopies will follow shortly.

Please note that these responses will also be available online at the start of the next business day, through the following link:

<http://www.torontohydro.com/sites/electricsystem/Pages/RegulatoryAffairs.aspx>

Yours truly,

[original signed by]

Glen A. Winn

Manager, Regulatory Applications & Compliance

encl.

:GAW/acc

cc: J. Mark Rodger, Counsel for THESL
Pankaj Sardana, Vice-President & Treasurer, THESL
Lawrence Wilde, Vice-President & General Counsel, THC
Intervenors of Record for EB-2009-0180 to -0183, by electronic mail only

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON ADDITIONAL EVIDENCE

1 **INTERROGATORY 1:**

2 **Reference(s):** **Section 1.6.8 of the Application Form for Applications under**
3 **Section 86 of the Ontario Energy Board Act, 1998**
4 **Ontario Energy Board’s February 11, 2010 Decision in EB-**
5 **2009-0180 EB-2009-0181, EB-2009-0182 and EB-2009-0183,**
6 **Page 19**

7

8 **Section 1.6.8 of the Application Form for Applications under Section 86 of the**
9 **Ontario Energy Board Act, 1998**

10 Section 1.6.8 requires the applicant to “describe the changes, if any, in distribution or
11 transmission rate levels (as applicable) and the impact on the total bill that may result
12 from the proposed transaction”.

13

14 **Ontario Energy Board’s February 11, 2010 Decision in EB-2009-0180 EB-2009-**
15 **0181, EB-2009-0182 and EB-2009-0183, Page 19**

16 The Board stated: “With respect to rate impacts for current customers, the Board notes
17 that the City of Toronto represents the customer most directly impacted and it supports
18 the transaction. The Board concludes that the rate impacts that have been estimated are
19 not unreasonable. However, these impacts have been estimated on the basis of the
20 proposed transactions, and both the assets to be transferred and the proper net book value
21 for those assets have yet to be determined. The Board will revisit this aspect of the
22 proceeding if the Applicants choose to revise the transactions and file additional
23 evidence. If the impacts are potentially unreasonable then actions to mitigate those
24 impacts will be considered.”

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON ADDITIONAL EVIDENCE

- 1 1.1. Please confirm that the distribution rates of customers other than streetlighting
2 and unmetered scattered load customers will not be affected by the revised
3 proposed transaction. If this understanding is incorrect, please provide a detailed
4 description of expected changes in rates and the impact on the total bill by
5 customer classes.
- 6 1.2. Please describe the expected impact of the revised proposed transaction on
7 streetlighting and unmetered scattered load customers' distribution rates.

8

9 **RESPONSE:**

- 10 1.1. THESL continues to propose that substantially all of the rate impacts of the
11 proposed transactions be confined to the streetlighting and USL classes.
12 However, THESL proposes that the issues of cost allocation, rate design, and rate
13 impacts be dealt with formally in THESL's next (2012) rates case, where these
14 issues can be addressed comprehensively and in context.
- 15
- 16 1.2. THESL is unable at this time to provide a precise statement of the impact of the
17 proposed transactions on the streetlighting and USL rates because key
18 determinations, such as the value of assets allocated respectively to those two
19 classes, and the treatment of existing contractual revenues have not been made.
20 However, as an approximation, were the Board to allow the transfer of \$29.418
21 million dollars to THESL ratebase, and if the revenue requirement attracted by
22 that transfer were allocated fully to those two classes, the class revenue
23 responsibilities would increase by an amount of approximately \$3.5 million
24 annually, assuming that 12% of the capital amount represents the capitalization-
25 related costs. In the case of streetlighting, this revenue requirement would, upon

**RESPONSES TO ONTARIO ENERGY BOARD STAFF
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- 1 Board approval, be offset by direct allocation of contractual revenues as revenue
- 2 offsets to that class.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON ADDITIONAL EVIDENCE

1 **INTERROGATORY 2:**

2 **Reference(s):** **Applicants' Additional Evidence, Page 3, Item No. 6**
3

4 The applicants state "...Upon request of the Board, the Applicants will also provide an
5 Amended and Restated Asset Purchase Agreement setting out the revised transaction
6 details once the specific transfer amounts are ultimately approved by the Board".

7 2.1. Is a draft copy of the "Amended and Restated Asset Purchase Agreement"
8 available?

9 2.2. If so, please provide a copy. If not, please file the Agreement with the Board as
10 soon as it becomes available.

11 2.3. Please provide the intended date for closing the revised proposed transaction.
12

13 **RESPONSE:**

14 2.1. An Amended and Restated Asset Purchase Agreement has not yet been drafted
15 pending the Board's approval of the proposed transactions.
16

17 2.2. THESL will provide the Amended and Restated Asset Purchase Agreement as
18 soon as it can be completed upon the Board's approval of the proposed
19 transactions.
20

21 2.3. THESL proposes a closing date for the transactions of May 31, 2011.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON ADDITIONAL EVIDENCE

1 **INTERROGATORY 3:**

2 **Reference(s):** **Applicants' Additional Evidence, Page 6, Item No. 2**

3

4 The Applicants seek “findings by the Board that the ratebase, revenue requirement, and
5 rate consequences of the transfer will be determined in the context of THESL’s general
6 application for 2012 rates commencing May 1, 2012.”

7 3.1. Please elaborate on how THESL would envisage this process as working
8 including how THESL proposes to deal with any timing issues arising from the
9 difference between the decision date in this proceeding and the proposed
10 implementation date of May 1, 2012.

11

12 **RESPONSE:**

13 3.1. Assuming Board approvals that would permit a closing date of May 31, 2011,
14 THESL would proceed to prepare evidence and proposals for the reflection of the
15 incremental ratebase and operating expenses, and of any revenue offsets, in
16 revenue requirement for its 2012 rate application, to be filed in August 2011.

17

18 THESL proposes to record and defer for disposition in its 2012 rate case all costs
19 and revenues stemming from the proposed transfers, from the closing date to
20 April 30, 2012.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON ADDITIONAL EVIDENCE

1 **INTERROGATORY 4:**

2 **Reference(s):** **Applicants' Additional Evidence, Page 17**

3

4 The Applicants state "Nevertheless the Applicants acknowledge that the DRC
5 methodology is not a perfect proxy for continuous historical cost information that
6 normally underlies recognized asset values for the purpose of rate setting. A significant
7 conceptual difference between these two approaches is that the DRC method adopts (as it
8 must) the current replacement cost as the basis for the calculation, whereas historical cost
9 accounting naturally reflects a lower nominal historical acquisition cost since that is built
10 up over time as equipment is acquired, and partially reflects lower nominal acquisition
11 costs prevailing several decades ago without the effect of intervening inflation."

12 4.1. Recognizing that depreciated replacement cost is generally higher than
13 depreciated historical acquisition cost due to the effects of inflation, and with
14 reference to the distribution assets being transferred to THESL, for a
15 representative sample of like assets from within the THESL distribution system,
16 please state the approximate percentage amount by which depreciated
17 replacement cost exceeds depreciated historical cost for the assets sampled.

18

19 **RESPONSE:**

20 4.1. THESL is unable to answer this interrogatory, since it does not have DRC
21 information on its distribution assets. The Valuation Study did not include assets
22 already in the distribution system.

**RESPONSES TO ONTARIO THE ELECTRICAL CONTRACTORS
ASSOCIATION OF ONTARIO AND THE GREATER TORONTO
ELECTRICAL CONTRACTORS ASSOCIATION
INTERROGATORIES ON ADDITIONAL EVIDENCE**

1 **INTERROGATORY 1:**

2 **Reference(s):** **Applicants' Additional Evidence, Page 12**

3

4 The applicants state: "Despite this, in some cases the intended use of the assets
5 (principally poles together with associated conductors) at a given location may not be
6 evident by observing their existing configuration."

7

8 However, in certain settings poles and associated conductors may have been intended to
9 supply future or potential scattered loads such as bus shelters and phone booths, and may
10 in fact be the only overhead infrastructure locally available to meet those needs.

11 [emphasis added]

12 1.1 What is meant by "principally", i.e. other than poles and associated conductors,
13 what assets are being referenced?

14 1.2 Other than applying the City of Toronto's Road Classification System, was any
15 analysis done of the assets on Collector and Arterial roads to determine which
16 poles or associated conductors are currently used to supply scattered loads?

17 1.3 If yes, what analysis was done and what were the results?

18 1.4 Other than applying the City of Toronto's Road Classification System, was any
19 analysis done to determine which poles and associated conductors are intended to
20 supply future or potential scattered loads?

21 1.5 If yes, what analysis was done and what were the results?

22 1.6 Other than applying the City of Toronto's Road Classification System, was any
23 analysis done to determine which poles and associated conductors are the only

**RESPONSES TO ONTARIO THE ELECTRICAL CONTRACTORS
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INTERROGATORIES ON ADDITIONAL EVIDENCE**

1 overhead infrastructure locally available to meet the needs for future or potential
2 scattered loads?

3 1.7 If yes, what analysis was done and what were the results?
4

5 **RESPONSE:**

6 1.1 Assets being referred to include poles, pole foundations, handwells, overhead
7 conductor, and underground cable.
8

9 1.2 Yes.
10

11 1.3 On completion of the Field Survey, an analysis was done to determine how many
12 streetlight poles in Overhead Supplied areas, Underground Supply Residential
13 areas, and Mixed Use areas have distribution attachments (including electrical
14 connections to supply scattered loads), and to provide a breakdown by road
15 classification (Arterial, Collector and Local). The results are as follows:

- 16 • 5,633 Streetlight Poles in Overhead Supplied Areas with distribution
17 attachments.
- 18 • 3,209 poles were located on arterial streets.
- 19 • 703 poles were located on collector streets.
- 20 • 1,721 poles were located on local streets.
- 21 • 4,355 Streetlight poles in Mixed Use areas with distribution attachments.
- 22 • 3,606 were located on arterial streets.
- 23 • 473 were located on collector streets.

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- 1 • 276 poles were located on local streets.
- 2 • 2,609 Streetlight poles in Underground Supply Residential areas with
- 3 distribution attachments.
- 4 • 1,363 were located on arterial streets.
- 5 • 528 were located on collector streets.
- 6 • 718 poles were located on local streets.
- 7
- 8 1.4 No.
- 9
- 10 1.5 Not applicable.
- 11
- 12 1.6 No.
- 13
- 14 1.7 Not applicable.

**RESPONSES TO ONTARIO THE ELECTRICAL CONTRACTORS
ASSOCIATION OF ONTARIO AND THE GREATER TORONTO
ELECTRICAL CONTRACTORS ASSOCIATION
INTERROGATORIES ON ADDITIONAL EVIDENCE**

1 **INTERROGATORY 2:**

2 **Reference(s):** **Applicants' Additional Evidence, Page 13**

3

4 The applicants state: "In order to determine the "mixed use" character of certain roads
5 with underground supplies, THESL used the City of Toronto's Road Classification
6 System. This system is described in the document (City of Toronto 2008 Road
7 Classification System) available at the City of Toronto website (at URL
8 www.toronto.ca/transportation/road-class/pdf/rc_document.pdf). In that system, roads
9 are classified as:

- 10 • Local
11 • Collector
12 • Arterial (major and minor)
13 • Expressway

14

15 Accordingly, on the premise that Collector and Arterial streets have existing and future
16 bus shelters, traffic signals and pedestrian crossings which presently do or will require
17 connection to the distribution system, THESL has deemed all Collector and Arterial
18 Streets as meeting the Board's criteria for Mixed Use Areas." [emphasis added]

19 2.1 Was any analysis done to determine which Collector or Arterial roads have
20 existing bus shelters, traffic signals and pedestrian crossings which presently
21 require connection to the distribution system?

22 2.2 If yes, what analysis was done and what were the results?

23 2.3 Was any analysis done to determine which assets on any given Collector or
24 Arterial road are currently configured with existing bus shelters, traffic signals or

**RESPONSES TO ONTARIO THE ELECTRICAL CONTRACTORS
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1 pedestrian crossings which presently require connection to the distribution
2 system?

3 2.4 If yes, what analysis was done and what were the results?

4 2.5 With respect to Collector or Arterial roads which do not currently have bus
5 shelters, traffic signals or pedestrian crossings which presently require connection
6 to the distribution system. Was any analysis done to determine whether there are
7 currently any plans for those services to be added in the future?

8 2.6 If yes, what analysis was done and what were the results?

9 2.7 Was any analysis done to determine whether there are any differences between
10 Arterial and Collector road types in terms of whether they have existing bus
11 shelters, traffic signals, pedestrian crossings or other scattered loads which
12 presently require connection to the distribution system?

13 2.8 If yes, what analysis was done and what were the results?

14

15 **RESPONSE:**

16 2.1 No. The analysis that was done was to determine the number of streetlight poles
17 with distribution attachments (including electrical supply connections to scattered
18 loads) located on collector and arterial roads. See response to ECAO 1.3.

19

20 2.2 Not applicable.

21

22 2.3 See response to ECAO 2.1

23

24 2.4 Not applicable.

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- 1 2.5 See response to ECAO 2.1
2
3 2.6 Not applicable.
4
5 2.7 No. According to the City of Toronto's Road Classification System document,
6 bus routes, traffic signals and pedestrian crossings are characteristics of both
7 arterial and collector class roads.
8
9 2.8 Not applicable.

**RESPONSES TO ONTARIO THE ELECTRICAL CONTRACTORS
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INTERROGATORIES ON ADDITIONAL EVIDENCE**

1 **INTERROGATORY 3:**

2 **Reference(s):** **Applicants' Additional Evidence, Page 13**

3

4 The applicants state: "Therefore, THESL has assigned all otherwise eligible streetlight
5 assets (such as poles, but excluding luminaires and brackets) on Collector and Arterial
6 Roads as distribution assets, effectively determining that the assets along Collector and
7 Arterial Roads that feed into Residential Setting Underground Supply qualify as
8 distribution assets. The result of this process using the Road Classification methodology
9 to categorize all Toronto streets provides a comprehensive and correct implementation of
10 the functionality or intended use of assets aspect of the Decision." [emphasis added]

11 3.1 Was any analysis done to determine whether the Road Classification methodology
12 (i.e., the City of Toronto's Road Classification System) provides a comprehensive
13 or correct analysis of whether specific assets are servicing existing bus shelters,
14 traffic signals, pedestrian crossings or other scattered loads which presently
15 require connection to the distribution system?

16 3.2 If yes, what analysis was done and what were the results?

17

18 **RESPONSE:**

19 3.1 The City of Toronto's Road Classification System document identifies bus routes
20 (with bus shelters), traffic signals, and pedestrian crossings as characteristics of
21 collector and arterial roads. It does not specify which assets are servicing these
22 loads, or other scattered loads that may be present on the streetscape.

23

24 3.2 See above.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON ADDITIONAL EVIDENCE

1 **INTERROGATORY 1:**

2 **Reference(s):** **Applicants' Additional Evidence, p. 4**

3

4 Please confirm that the Inventory Study has not been filed. If it has been filed, please
5 provide the reference. If it has not been filed, please provide the Executive Summary or
6 similar document.

7

8 **RESPONSE:**

9 The Inventory Study was not filed with the Additional Evidence Application as it consists
10 of only the Field Survey collected data organized in a large database. A summary of the
11 asset quantities extracted from the inventory database, as determined by ValuQuest, can
12 be found in Appendices F and G on pages 44 through 49 of the ValuQuest Report. No
13 other summary document was made of the Inventory Study results.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON ADDITIONAL EVIDENCE

1 **INTERROGATORY 2:**

2 **Reference(s):** **Applicants' Additional Evidence, p. 13**

3

4 Please confirm that all Connector and Arterial Roads have bus routes. If they do not,
5 please advise the percentage (by length) of those roads that have bus routes.

6

7 **RESPONSE:**

8 According to fare route information obtained from the TTC, not all arterial and collector
9 streets presently have bus routes. Currently, 90% of arterial roads and 39% of collector
10 roads have bus routes. The percentage (by length) of those roads that have bus routes is
11 not available as road length information from the City of Toronto is not presently
12 available.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON ADDITIONAL EVIDENCE

1 **INTERROGATORY 3:**

2 **Reference(s):** **Applicants' Additional Evidence, p. 19**

3

4 Please confirm that, for all categories of assets, NBV was assumed to be 64% of fair
5 market value. Please advise the basis of this assumption. Please advise all tests or other
6 methods of verification used to confirm that for each category of assets NBV was equal
7 to 64% of fair market value.

8

9 **RESPONSE:**

10 The "Group NBV" values in Table 4 were derived, in each of the Streetlighting and
11 Expressway Lighting groups, by applying the proportion of the (sub) total DRC in each
12 group represented by the individual asset categories to the corresponding NBV group
13 (sub) total. For example, the Group NBV for Streetlighting luminaires was derived as

14

15
$$(15295780 / 83,736,490) * 53,580,000 = 9,787,225$$

16

17 It was necessary to take this approach to decompose the Group NBV into categories for
18 each asset type since (i) distinct NBV values are required for each asset type; (ii) the total
19 DRC had to be adjusted downward to equal the historical NBV; and (iii) the proportions
20 of total represented by each asset type differed as between the historical NBV and the
21 adjusted DRC approaches. Downward adjustment of the total DRC was necessary since
22 THESL does not propose a valuation in excess of the historically recorded NBV. If the
23 proportions from the DRC were not applied to the historically recorded NBV, then the
24 study would have no effect whatsoever on the proposed valuations relative to the
25 historically recorded NBV.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON ADDITIONAL EVIDENCE

1 **INTERROGATORY 4:**

2 **Reference(s):** **Applicants' Additional Evidence, Valuation, p. 16**

3

4 Please provide a detailed calculation of the amount of "burden" that is included in the
5 \$29.4 million amount of rate base proposed to be added for the distribution company in
6 this application. Please provide evidence that none of this burden has been included in
7 distribution rates in prior years.

8

9 **RESPONSE:**

10 It is not clear to THESL what the term "burden" refers to in the context of this question.
11 Assuming that "burden" refers to the "indirect" component of cost apart from the
12 acquisition cost of the equipment itself, page 45 of the Valuquest report sets out that the
13 installed cost of the assets was burdened at a rate of 5% to determine the RCN of the
14 assets. Since depreciation was applied to the RCN including burden to obtain the DRC,
15 and the DRC was in turn reduced by a scalar factor to arrive at the NBV figure of
16 \$29.418 million, it follows that 5% of that figure or \$1.47 million represents burden cost.

17

18 The financial records of THESL and the affiliate owning Streetlights have been
19 maintained separately pursuant to the Affiliate Relationships Code and capital costs
20 incurred by the Streetlight affiliate have been recorded to those accounts and not to
21 THESL accounts.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON ADDITIONAL EVIDENCE

1 **INTERROGATORY 5:**

2 **Reference(s):** **Applicants' Additional Evidence, Valuation, p. 19**

3

4 Please confirm that, based on the methodology used in the Application, the minimum net
5 book value of each asset for the purposes of the transfer to regulated rate base is 6.4% of
6 replacement cost (i.e. 64% of 10% of replacement cost).

7

8 **RESPONSE:**

9 THESL is unable to interpret this question based on its wording, and cannot confirm the
10 statement in question. THESL makes no such submission.

11

12 If the question refers to the 'remaining useful life override' concept referred to at page 19
13 of the Valuquest Report, that concept is explained in that report at that page. It does not
14 apply to the net book value of the assets, but can in certain circumstances (as explained in
15 the report) apply to the DRC determination.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON ADDITIONAL EVIDENCE

1 **INTERROGATORY 6:**

2 **Reference(s):** **Applicants' Additional Evidence, Valuation, p. 26**

3

4 Please confirm that, based on the methodology used, the average fair market value of all
5 poles is 29.7% of their replacement cost. Please describe all tests or other methods of
6 verification used to confirm that this ratio is reasonable or correct.

7

8 **RESPONSE:**

9 The figure of 29.7% refers to the percentage of the estimated "Replacement Cost New"
10 represented by the estimated DRC for poles.

11

12 Given the Board's Decision and directives in this case, THESL did not employ other tests
13 or methods of verification. Please refer to section 9.1 of the Valuquest Report for a
14 discussion of alternate valuation methodologies.

**RESPONSES TO SCHOOL ENERGY COALITION
INTERROGATORIES ON ADDITIONAL EVIDENCE**

1 **INTERROGATORY 7:**

2 **Reference(s):** **Applicants' Additional Evidence, Valuation, p. 45**

3

4 Please confirm that, for the concrete poles the replacement cost is estimated at \$99.3
5 million, the depreciated replacement cost is estimated at \$29.6 million, the net book value
6 is estimated at \$18.9 million, and the net book value allocated to distribution rate base is
7 estimated at \$14.0 million. If these figures are materially incorrect (i.e. more than \$1
8 million off in either direction for any of these estimates), please provide more reliable
9 estimates and the calculations supporting them.

10

11 **RESPONSE:**

12 THESL confirms that the Valuquest report states at page 45 an RCN value of
13 \$99,263,400 for concrete poles. Otherwise THESL's evidence does not report DRC or
14 other values for the concrete pole sub-category and no explanation is given for the
15 derivation of the other figures cited in the question, so THESL is not able to confirm
16 those figures.