



EB-2010-0142

IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Toronto
Hydro-Electric System Limited for an order approving
just and reasonable rates and other charges for
electricity distribution to be effective May 1, 2011.

BEFORE: Ken Quesnelle
Presiding Member

Marika Hare
Member

Karen Taylor
Member

PARTIAL DECISION & ORDER

The Application and the Proceeding

Toronto Hydro-Electric System Limited (“THESL” or the “Applicant”) filed an application dated August 23, 2010 with the Ontario Energy Board (the “Board”) under section 78 of the *Ontario Energy Board Act*, 1998, S.O. c.15, Schedule B) (the “Act”), for an order or orders approving just and reasonable rates and charges for the rate year commencing May 1, 2011.

The application included increases in operating expenses, increases in capital expenses, changes to the cost of debt and equity, as well as a smart grid plan. The

Applicant also proposed disposing of certain deferral accounts. The Board assigned file number EB-2010-0142 to the application.

The application was for approval of distribution rates and other charges to recover a revenue requirement of \$578 Million for 2011.

The intervenors to this proceeding are listed in Appendix A.

The Approved Final Issues List is attached as Appendix B.

A Settlement Conference was convened on January 25, 2011. On January 26, 2011, the Board received a letter from counsel to THESL requesting that the Board adjourn the settlement discussions in this proceeding until THESL could file an update to its application to reflect (what THESL described as) material, late breaking mandatory accounting changes (the "Accounting Update"). On January 27, 2011, the Board approved the adjournment of the settlement discussions. On February 28, 2011, the Settlement Conference reconvened. On March 25, 2011, a Settlement Agreement was filed with the Board which incorporated settlement of most outstanding issues in this proceeding.

On March 29, 2011, the Board announced its acceptance of the Settlement Agreement. Unsettled issues remained in five areas, which were:

(1) when it would be appropriate for THESL to commence filing rate applications under incentive regulation and whether or not this application would be an appropriate base case for a future IRM application and if not, why not;

(2) emerging requirements, encompassing:

(i) the energy storage project,

(ii) the electric vehicle charging infrastructure program included under smart grid,
and

(iii) the fleet and equipment services expenditures under the general plant category, due to the inclusion of vehicle purchases related to the green initiative.

(3) deferral and variance accounts;

(4) whether or not THESL's suite metering cost allocation is appropriate and would it be appropriate for THESL to establish a separate rate class for multi-unit residential customers that are served directly by THESL through its suite metering provision;

(5) whether or not THESL's cost allocation is appropriate and the appropriateness of the proposed revenue to cost ratios for each class.

The central feature of the Settlement Agreement was an agreement to decrease the utility's proposed 2010 revenue requirement from \$578.4 million to \$524.8 million contained in the Settlement Agreement, a \$53.6 million reduction. The Settlement Agreement reflected a reduction in capital expenditures of \$119.2 million and a reduction in expenses of \$44 million. The Settlement Agreement is attached as Appendix C.

The oral hearing commenced on March 29, 2011 and was completed on March 30, 2011. The argument phase was completed on May 2, 2011.

The full record of the proceeding is available at the Board's offices. The Board has chosen to summarise the record in this Decision only to the extent necessary to provide context to its findings.

Incentive Regulation Mechanism ("IRM")

Background

On November 11, 2010, the Board issued *Issues List Decision and Procedural Order No. 2* which determined that Issue 1.5, which was defined as follows, would be on the Approved Final Issues List:

"When would it be appropriate for Toronto Hydro to commence filing rate applications under incentive regulation? Is this application an appropriate base case for a future IRM application? If not, why not?"

On March 1, 2011, the Board released a letter entitled *Electricity Distributors Scheduled to Apply for Rebasing for 2012 Rates*. THESL was not included on this list.

On March 25, 2011, THESL filed its Settlement Proposal with the Board. Issue 1.5 was among the unsettled issues.

On the same date, THESL filed a letter with the Board titled *Notice of Filing Intentions for 2012 Distribution Rates*. In this letter, THESL advised the Board and other stakeholders of its intention to file a non-IRM cost-of-service (“COS”) application for 2012 rates. THESL noted that the Board and intervenors in its application for 2011 rates were aware of Issue 1.5 and stated that it did not wish to disturb or depart from the process the Board had already established for determination of that issue and consequently had filed a copy of the letter in the present proceeding.

THESL argued that with respect to the first question raised by Issue 1.5, as to when it would be appropriate for it to commence filing rate applications under incentive regulation, that it would not be appropriate for it to file rate applications under the existing Third Generation Incentive Regulation Mechanism (“3GIRM”).

THESL submitted that this was because there is a fundamental distinction between a cost-of-service regulatory construct and an IRM regulatory construct and the Board had for many years employed these two separate and distinct methods of ratemaking: IRM which had evolved through three phases from Performance Based Regulation and cost of service which has been used for decades by the Board in the regulation of gas distributors and more recently for electricity distributors.

THESL submitted that given the underlying premises of IRM and in particular the assumption that the utility is effectively in a steady state or a sustainable pattern of low growth in revenue requirement, the presumption should be that the utility needs to demonstrate its qualifications to enter the IRM contract.

THESL stated that where the COS regulatory construct was concerned, the ‘contract’ is limited to the test year(s) with the utility having no sanctioned opportunity to increase earnings through cost reductions in a subsequent interim period and the cost savings achieved during the test period being passed through to ratepayers at the time of the next COS determination. THESL added that the only lingering effects of a COS period are that absent any subsequent change, rates remain at the level set for the test year and all parties are entitled to repeat the process for the subsequent period.

THESL argued that although these two methods of ratemaking are fundamentally different, they share one feature that is superficially similar which in a COS framework is the test year rate application, and in an IRM framework is the rebasing application. THESL stated that while both of these can appear similar in form in that both involve comprehensive and detailed forecasts of the revenue requirement for the test year, they are components of fundamentally different systems of regulation and, as such, a COS application is not equivalent to or substitutable for a rebasing application and neither is a rebasing application the same as a COS application.

THESL argued that until its rate base stabilizes (i.e., when annual capital expenditures level off and are matched by depreciation), it would not be appropriate for it to file rate applications under 3GIRM, as this form of regulation effectively freezes its revenue requirement during the period between rebasing applications.

THESL submitted that this would not be either compatible or compensatory with a significantly increasing rate base and with the provision of the goal of providing the greatest practical degree of 'rate smoothing.' THESL argued that it had demonstrated in its past three COS rate filings that substantial year-over-year increases in rate base are and will continue to be a necessity and it cannot carry out vital infrastructure renewal if capital expenditures are limited to the current level of depreciation.

THESL submitted that in light of its circumstances it should continue to be given the discretion to file cost-of-service applications with the Board if and when needed.

THESL argued that were the Board to impose IRM on THESL, it would be knowingly imposing a regulatory framework that: (i) forces THESL's shareholder to earn less than its legally allowed fair return on investment to fund much needed infrastructure renewal; or (ii) forces THESL to mortgage the distribution system's future integrity to artificially suppress distribution rates today.

THESL submitted that in addition its 2011 application did not represent an appropriate base year for IRM for two reasons. First, as outlined above IRM is not an appropriate framework to set just and reasonable rates in its circumstances and second, doing so would be contrary to the administrative law principles of fundamental justice and procedural fairness under which a party has a right to know the case it must meet prior to commencing a proceeding. THESL submitted that at no time was it notified by the Board prior to filing its Application on August 23, 2010 that its Application could or would

be used as a base year to subsequently impose IRM and what THESL characterized as an effective three-year rate freeze.

THESL argued that as a result of this it had filed an application with lower capital and operating budgets than it would otherwise have if it had been notified that it might have to live with a three year rate freeze following rebasing, as it had instead phased in those increases slowly over time to mitigate the short-term rate impacts on consumers.

With respect to the second question raised by Issue 1.5, THESL argued that in essence, the second question takes as a premise the proposition that 3GIRM is appropriate for it and since it strongly disputes that premise, it cannot agree that its application for 2011 revenue requirement and rates could then serve as the basis for a rate making system that is itself inappropriate for it.

Board staff noted that unlike other distributors THESL has been filing COS applications on an annual basis in recent years. In this context, staff expressed the concern that THESL should not be receiving treatment different from those distributors, unless such treatment can be justified by circumstances unique to THESL. Staff stated that it did not find it clear that any of the reasons THESL had provided as to why it had to file COS applications annually would be unique to it, nor why such available IRM mechanisms as the Incremental Capital Module ("ICM") could not be used to deal with its circumstances.

Staff noted in this context that the Board, in its letter of April, 20 2010 titled *Early Rebasing Applications*, stated the criteria it would use to determine whether or not early rebasing by an applicant was justifiable. Staff submitted that in the event THESL did file a COS rebasing application for 2012 rates, the Board should, at that time, review such an application using the criteria contained in this letter.

Staff further submitted that in order to facilitate the Board's deliberations on whether or not any such application should be allowed to proceed, THESL should include in it detailed qualitative and quantitative evidence as to why the ICM model would be inadequate to address its capital requirements.

Staff concluded that the Board should neither determine that now is the appropriate time for THESL to commence filing rate applications under incentive regulation, nor that the present application is an appropriate base case for a future IRM application.

Intervenors were generally of the view that it was appropriate for THESL to begin filing applications under 3GIRM.

BOMA submitted that the current cost of service application should be used to set base rates followed by IRM applications for rates through 2012 to 2014 and that there was no justification provided by THESL to wait for another cost of service application and use that as the base year for setting rates.

CCC and VECC argued that the present application was an appropriate base for THESL to commence filing rate applications under incentive regulation.

Energy Probe concluded that the correct answers to the questions posed by Issue 1.5 were first that it would be appropriate for the Board to conclude that the present application would not be an appropriate base case for a future IRM application, but that rate year 2012 would be.

SEC submitted that the Panel in this proceeding cannot make a binding determination as to the rate-setting mechanism to be used for THESL in 2012. SEC recommended that the Panel confirm that the 3rd Generation IRM regime applies to THESL, subject to the exceptions set out in the Board's letters of April 20, 2010 and March 1, 2011 and the procedure for considering those exceptions that has been established and that nothing in the present Decision should be interpreted as implying that the Board expects or prefers in any way that the Applicant should apply in 2012 on a cost of service basis.

THESL's argument was based around its view that contrary to the positions taken by many of the intervenors, it was not Board policy under the 3GIRM mechanism to require that all electricity distributors must operate under IRM, regardless of the circumstances. THESL submitted that instead the Board had demonstrated a fair degree of flexibility in applying several different approaches including IRM, and single year and multiple year cost of service and cited examples of these approved by the Board.

THESL noted the submissions of Board staff and several intervenors that because of the settlement that was reached, the Board did not have the opportunity to test THESL's capital plan or OM&A evidence in the proceeding. THESL argued that it should not be faulted for participating in good faith in the settlement conference, nor for reaching a settlement on a substantial number of the issues which were left available for settlement by the Board.

THESL reiterated its position that there was a distinction between a cost of service application and a rebasing application and in this context, argued that the Board should reject staff's argument that in the event THESL does file a COS rebasing application for 2012 rates, the Board should, at that time, review such an application using the early rebasing criteria.

THESL submitted that what it characterized as the "equality of treatment" and "uniqueness" arguments put forward by Board staff and intervenors as criteria for determining whether or not THESL should be placed under an IRM regime are irrelevant to the Board's determination in this matter and should be disregarded.

Board Findings

In the Issues List Decision and Procedural Order No. 2, the Board found that this issue was not irrelevant, contrary to THESL's submission. The Board stated ". . . it is appropriate to incorporate this issue to allow parties to explore the full range of approaches available to deal with the longer term issues raised by Toronto Hydro's application."

The Board notes THESL's statement in its final argument that various intervenors "have seized upon issue 1.5 to advance a surprising flurry of arguments and allegations"¹. The Board also notes the question put forth by THESL in its reply argument, which asks "...why the sudden interest, particularly of ratepayer groups, in this issue?"² The Board reminds THESL that the Board approved the issue for this proceeding and it is perfectly reasonable that ratepayer groups would make submissions on this issue.

The Board is of the view that THESL's apparent surprise with ratepayer interest in this issue is indicative of THESL's choice to approach the Board's ratemaking processes in a manner that is contrary to the Board's rate-setting policies.

The Board has indicated in many policy instruments, papers, speeches and decisions that it continues to believe that incentive regulation provides benefits to ratepayers and shareholders, in both the electricity and natural gas distributors.

¹ THESL Reply Submissions, May 2, 2011 page 3, paragraph 8.

² Ibid., at paragraph 9.

A clear and timely indication of the Board's intent on this matter is contained in its April 20, 2010 letter to all Licensed Electricity Distributors. In this letter, the Board addressed the issue of electricity distributors filing rate applications to have their rates set through a cost of service proceeding earlier than scheduled.

The Board's letter included a list of Electricity Distributors scheduled for Rate Rebasings in 2011. THESL was one of the Distributors listed and the application that is the subject of this Decision is the application anticipated in that letter.

The multi-year rate setting plan for electricity distributors was established in 2006. The April 20, 2010 letter described the plan as calling for electricity distributors to have their rates set on a cost of service basis only once over a period of several years, with rates being set using an IRM in the intervening years.

The letter went on to explicitly state that the Board's rate-setting policies are such that distributors are expected to be able to adequately manage their resources and financial needs during the term of the plan.

THESL indicates that it did not understand the case it must meet prior to commencing this proceeding, and did not understand that the current application could be used as the base year to impose IRM in setting future rates.³ The Board does not accept this assertion, given the April 20, 2010 letter and established nature of the IRM framework.

In order to justify its approach, THESL posits that two separate frameworks exist and that it has been operating within one of them, that being a cost of service framework. THESL argues that it would be inappropriate for the Board to now treat it as though it were operating within the other framework, that being an IRM framework.

THESL also argues that based on this rate making construct, that there is a distinction between a cost of service application and a rebasing application. THESL submits it would do things differently in a rebasing application and that it did not anticipate that there was an expectation that its 2011 application would be treated as a rebasing application.

The Board's rate setting policies are not composed of the two separate frameworks that THESL describes. As stated above, the Board has clearly articulated the mechanics of

³ THESL Reply Submissions, May 2, 2011, page 16, paragraph 56 and 57.

the multi-year rate setting plan and its expectations of distributors. The Board believes that THESL's submissions mischaracterize the Board's rate setting policies and the Board does not accept the construct as described by THESL as a Board sanctioned framework.

THESL has pointed to situations in which the Board's multi-year rate setting plan has not been strictly adhered to in support of its position that its view of the framework is one that the Board should accept. While the Board accepts that there have been deviations from the Board's stated multi-year rate setting plan, including the acceptance of THESL's non-conforming applications in the past, the Board considers the April 20, 2010 letter to be a clear and explicit statement of the Board's expectations of distributors on a going forward basis.

Given this clear and direct communication to THESL and other distributors regarding the Board's expectations, the Board does not accept THESL's view that it is reasonable for it to have approached its 2011 application with an expectation that it would also be making a cost of service application in 2012. The Board is not persuaded by THESL's submissions that the Board's stated rate setting policies did not apply to it.

This Panel provided its direction during the oral hearing that it did not require submissions on the issue of whether or not this Panel had the authority to direct THESL to submit a particular form of application in 2012. As stated above, this issue was deemed appropriate in this application to allow parties to explore the full range of approaches available to deal with the longer term issues raised by Toronto Hydro's application.

The Board makes no determination as to what THESL is required to file in its subsequent rate application. It is for THESL to determine the manner in which it chooses to apply for any adjustment to its rates for 2012. The acceptability of the application will be determined by the Board at that time.

The Board notes that THESL is not included in the list of expected cost of service applicants for 2012, as per the letter issued by the Board on March 1, 2011.

Should THESL file a cost of service application for 2012 rates, the expectations of the Board are clear. As set out in the April 20, 2010 and March 1, 2011 letters, a distributor that seeks to have its rates rebased earlier than scheduled must justify, in its cost of

service application, why early rebasing is required and why and how the distributor cannot adequately manage its resources and financial needs during the remainder of the 3rd generation IRM plan term.

Emerging Requirements

Background

The Board determined in its *Decision on Confidentiality and Procedural Order No. 4* that three proposed expenditures included by THESL as part of its capital budget would not be eligible for settlement, which were: (1) the energy storage project included under emerging requirements, (2) the electric vehicle charging infrastructure program included under smart grid as part of emerging requirements, and (3) the fleet & equipment services expenditures under the general plant category, due to the inclusion of vehicle purchases related to the green initiative.

On March 25, 2011 THESL sent a letter to the Board withdrawing its energy storage proposal and the associated revenue requirement from its application in this proceeding.

During the oral hearing, the Board heard evidence on the remaining two projects, namely the electric vehicle charging station pilot project (“EV Pilot”) and the premiums proposed for the greening the fleet initiative (“Greening the Fleet”).

Electric Vehicle Charging Infrastructure Program

Background

THESL has proposed a \$600,000 expenditure on the EV Pilot. THESL stated that this project is a response to the Provincial Government’s target that one in 20 vehicles in Ontario be electric by 2020 as well as to the intention of several auto manufacturers to start selling plug-in electric vehicles (“EV”) to consumers in the City of Toronto in 2011. THESL gave evidence that it plans to install and monitor approximately 30 to 40 EV charging stations across the City.

THESL submitted that the EV Pilot will assist in the development of safety, operating and control procedures and practices related to EV charging infrastructure connected to

the THESL grid. Furthermore, THESL argued that this project will allow it to understand the design, specification, standards, metering, communications, security, privacy, and billing and data requirements related to EV charging.

Staff noted that this project was filed as a smart grid demonstration project and that THESL had stated in this context that the imminent arrival of the electric vehicle in the Toronto market necessitated an impact assessment prior to its filing of its Green Energy and Green Economy Act (“GEA”) Plan.

Staff expressed its agreement with THESL that a project of this nature requires lead time to produce conclusive data in relation to the impact of electric vehicles and the required charging infrastructure on the grid and noted that the amount of \$600,000 proposed by THESL to be spent on this project is modest with reference to the Applicant’s overall capital budget. Staff took the view that THESL had adequately justified this expense.

Staff also noted that issues may arise as this new technology develops related to the development of the EV charging station market structure and the appropriate role for distributors such as THESL in that marketplace. Staff considered that while it is premature to address these issues at this time, there may be a need for such issues to be addressed in the future.

Intervenors also expressed concerns related to this matter.

VECC stated that it presumed the EV Pilot is and would continue to be limited to the gathering of information for the purpose of examining the impact of EV related load on the distribution system. VECC expressed the view that the project, to the extent it went beyond such a purpose, would be inappropriate as a cost charged to distribution rates.

BOMA submitted that the Board should indicate to THESL that ownership of the charging stations and their inclusion in rate base is only allowable for the pilot program. BOMA submitted that THESL should not become involved in a competitive market that is likely to evolve if and when electric vehicles increase in number. Energy Probe adopted BOMA’s submission.

CCC and SEC made similar submissions. SEC argued that this area seems to be a naturally competitive area, and that there is no evidentiary basis in this proceeding to conclude that it should be part of the monopoly distribution business.

THESL argued that it is premature to address these issues at this time and the only question in this proceeding is the approval of the proposed EV pilot. THESL indicated that this issue might raise questions of public policy needing to be examined by the Board and that the EV pilot would be helpful to all parties in this regard.

Board Findings

For the reasons that follow, the Board will not allow the total cost of the Electric Vehicle Charging Infrastructure Program to be included in THESL's revenue requirement.

Staff and some parties have noted that policy development regarding ownership and operation of the electric vehicle charging infrastructure has yet to take place. Both VECC and BOMA based acceptance of the expenditure on the research aspects put forward by THESL for the pilot program and submitted that anything further would be inappropriate. CCC and SEC made similar submissions that there was no basis on which to establish that the ownership of the charging infrastructure should be within the monopoly business of THESL. The Board agrees that there is no basis on which to make this determination in this proceeding.

The Board does not accept THESL's counter argument that it is premature to address these issues and that the electric vehicle pilot would be helpful to all parties in informing the public policy debate on this issue.

The Board accepts that, in relation to THESL's overall spending plan, \$600,000 is a modest investment. The Board also accepts that research and development in the areas identified by THESL are essential to the success of the nascent electric vehicle industry. However, the Board is concerned that there are risks associated with establishing electric vehicle charging infrastructure on a pilot basis, if both vendors and purchasers of electric vehicles take this infrastructure into consideration at the time of the sales transaction.

In testimony evidence provided by Mr. Labricciosa, the Board heard that THESL has been in communication with the auto vendor sector. Mr. Labricciosa indicated that

THESL and these vendors are seeking ways to establish the most convenient sites of charging stations in concert with the residential locations of those Toronto residents that purchase electric vehicles. Mr. Labricciosa spoke about the need to establish enough “charging centres to allow people to feel comfortable at moving from one end of the city to the other”⁴.

The public’s confidence in a robust and enduring electric vehicle charging infrastructure is an important and enabling element in the facilitation of the Provincial Government’s stated goals pertaining to electric vehicles.

However, as noted by VECC, BOMA, CCC and SEC, the policy issues associated with the creation and operation of stand-alone, electric vehicle charging stations have not been dealt with to date. The Board has engaged industry stakeholders in a policy development dialogue on Smart Grid implementation, which includes issues relating to electric vehicles. This engagement is in response to a Minister’s Directive that, amongst other things, has provided the Board with a base of principles to consider in its facilitation of the Smart Grid.

The record of the Smart Grid consultation has not been adopted and examined for the purposes of this proceeding.

The Board is of the view that it is premature for THESL to proceed with a series of public electric vehicle charging locations prior to the completion of the Board’s Smart Grid consultation. The Board is concerned that action by THESL prior to the resolution of the Smart Grid policy could be counter-productive to the achievement of the government’s electric vehicle goals by potentially adversely affecting the acceptance and adoption of electric vehicles.

As previously stated, the Board does see merit in THESL performing certain analytical work pertaining to the impact of electric vehicle charging on the distribution system. The Board will therefore allow the costs associated with this specific activity to be included in the revenue requirement. The Board leaves it to THESL to determine how this best be done, with the only condition being that it not fund the provision of a service to the public.

⁴ Transcript of Proceeding V1, p.91 L5-L6

The Board notes that public charging stations represent one of a variety of electric vehicle charging solutions. The Board is of the view that THESL can devise methods of analyzing the effect of electric vehicles on its distribution system without having to provide electric vehicle charging service directly to electric vehicle owners through the proposed network of charging stations.

The Board will approve \$200,000 of the proposed \$600,000 in the calculation of THESL's revenue requirement in order to allow THESL to pursue electric vehicle impact analysis on its distribution system.

Vehicle Purchases Related to the Green Initiative

Background

THESL proposed a premium for "greening the fleet" of \$2,012,000 under the general plant category of fleet & equipment services for the purchase of 69 electric or hybrid vehicles.

THESL stated that in support of its environmental strategy to be carbon neutral by 2020, it had adopted purchasing and operating initiatives intended to reduce carbon emissions, including the continued introduction of "greener" technology to its fleet.

THESL submitted that emission reductions would result from its efforts to green the fleet.

THESL argued that this initiative was reasonable and appropriate in light of its corporate objective to be carbon neutral by 2020.

Board staff stated that it was satisfied that the proposed expenditures are justified based on the evidence provided by THESL during this proceeding.

SEC agreed with THESL that the incremental cost of approximately \$2 million to purchase hybrid and electric vehicles is a reasonable expenditure to show environmental leadership and good corporate citizenship. SEC further submitted that there may also be long-term benefits in demonstrating the value of electric transportation and thus balancing daytime peak load with night time charging load.

BOMA and CCC noted that THESL did not provide a business case justifying the additional costs associated with the premium. BOMA submitted that that Board should consider whether the cost in excess of the savings associated with the premium paid for greening the fleet should be included in the revenue requirement for the 2011 test year. Energy Probe supported BOMA's position. CCC submitted that the Board should allow for half of the \$2 million expenditures for 2011, and require THESL to provide, in its next rebasing proceeding a more comprehensive and complete analysis to justify further expenditures for "greening the fleet".

THESL noted that its proposal represented less than 0.1% of its requested base revenue requirement and that the introduction of more environmentally-friendly hybrid/electric vehicles carry premiums and that early adopters pay higher premiums.

THESL submitted that such a premium is justified to support its objective to reduce its carbon footprint. THESL indicated that this objective is consistent with the carbon reduction initiative by the Province of Ontario. THESL further submitted that a formal business case is not possible due to the difficulty in placing a value on cleaner air and reduced carbon emissions as there is no agreed-upon dollar value for these externalities.

Board Findings

THESL's main supporting rationale for the greening of its fleet is that it will assist in obtaining the corporate goal of a 50% carbon footprint reduction by 2020. While the Board has no concern with regard to the corporate goal itself, it is concerned with the financial impacts of the corporate goal on rates and the purported value proposition to ratepayers associated with the investment.

THESL provided the argument that the premium for the vehicles represents a very small fraction of its base revenue requirement in support of the investment. THESL also provided evidence that it has business reasons for making the investment but not a business case. The business reasons being associated with THESL's corporate social responsibility and shareholder direction as it relates to carbon emission reduction.

The Board is of the view that it is inappropriate for the costs associated with the "greening the fleet" premium be visited on ratepayers. The Board expects regulated corporate entities such as THESL to be good corporate citizens and find ways to reduce

negative environmental impacts within its control. However, it is not appropriate that they move out ahead of environmental policy regulation and burden the ratepayer with the costs of attaining for itself established or shareholder directed environmental goals.

The Board observes that THESL has not been able to produce a business case due to the lack of suitable carbon pricing inputs. In the Board's view, this is the clearest indication that THESL's initiative is premature. The evolution of environmental public policy will bring with it the social benefit analysis that THESL now lacks, in whatever form deemed most suitable. It may be in the form of carbon emission regulations that reduce emissions through the equipment standard setting process, a carbon taxation regime or a cap and trade system. Irrespective of what system evolves it will be as a result of broad public policy development that rightfully takes place outside of this forum which is intended for the setting of just and reasonable rates for the electricity distribution ratepayers in the City of Toronto.

The Board does not approve the inclusion of the proposed premium of \$2,012,000 in the calculation of THESL's revenue requirement for 2011. The Board makes this finding on a principled basis and to establish the long run expectation on this matter noting that the addition to revenue requirement in relation to this initiative for 2011 is indeed a modest one. The projected premium expenditures over the life-cycle replacement of the THESL's rolling stock, especially given the premiums on the larger specialty equipment, however, appear to be significant.

Deferral and Variance Accounts

Background

Issue 6.1, which was defined as "Is the proposal for the amounts, disposition and continuance of THESL's existing Deferral and Variance Accounts appropriate?" was not settled. There were three deferral accounts which were discussed during the oral hearing. These were: (1) Late Payment Charges (1508), (2) IFRS Costs (1508) and Line Loss Variance Account (1588).

(1) Late Payment Charges (1508)

On February 22, 2011, the Board issued its EB-2011-0295 Decision and Order in the Late Payment Penalty Generic Hearing (the "LPP Decision"). The LPP Decision

determined that THESL could recover from its ratepayers an amount of \$7.5 million over a 24 month period starting May 1, 2011.

On February 25, 2011, THESL filed a letter with the Board updating its calculations of the LPP Rate Riders to reflect the findings of the LPP Decision.

On March 25, 2011, THESL filed a letter with the Board which requested, among other things, that rates be implemented August 1, 2011, rather than May 1, 2011 as had been proposed in the application. THESL proposed in this context that the LPP rate rider also be implemented on August 1 for a period of 21 months rather than the 24 months authorized in the LPP Decision.

During the oral hearing, the Panel expressed the belief that it had the authority to make a determination on THESL's request without the need to seek a vary order on the LPP Decision.

Staff accepted THESL's proposed 21 month implementation period for the rate rider arising out of the LPP Decision. There were no other submissions on this matter.

(2) IFRS Costs (1508)

THESL's application had proposed that a balance of \$7.1 million in Account 1508 related to IFRS costs to the end of 2010 and including a forecast component be cleared. THESL stated that this account had recorded incremental IFRS transition costs as directed by the Board and that the costs reflected incremental operating expenditures associated with preparing the transition to IFRS accounting in January 2011.

On March 29, 2011, at the commencement of the oral hearing, THESL entered into the record a revised detailed breakdown of IFRS costs which showed a reduction of these costs to \$6.1 million.

THESL noted that any IFRS costs incurred after the end of December 2010 were included as part of its 2011 OM&A budget envelope. THESL further noted that at the time its application had been filed in August 2010, the transition to IFRS was to occur in January 2011. However, in September 2010, the Accounting Standards Board had issued a decision stating that qualified entities with rate-regulated activities would be permitted to defer the adoption of IFRS for one year, up to January 1, 2012. THESL

stated that it had chosen to defer the adoption of IFRS and as a result had been able to reduce the amount it was seeking to clear to \$6.1 million. THESL explained that this reduction was mainly due to its ability to use internal resources to do the required work in 2011 instead of having to rely on external consultants to meet the earlier deadline.

THESL submitted that these costs were necessary and prudently incurred in light of the mandatory transition to IFRS. THESL stated that this included a number of extraordinary expenses that were unique to it in light of the new obligations IFRS imposed including the de-recognition of assets, componentization of assets, the development of a supportable depreciation methodology and direct attribution of labour costs to capital projects.

THESL argued that the costs it incurred in connection with the mandatory transition to IFRS were prudently incurred and amounted to a material reduction in 2011 Base Distribution Revenue Requirement, which reduction had been accepted by the parties in the Board approved Settlement Agreement.

Staff noted that the amount of IFRS costs claimed for recovery by THESL is the highest that has been sought for recovery by an applicant to date. Staff stated that this was demonstrated during cross examination by SEC, during which IFRS costs proposed for recovery by other applicants were cited and the highest number found by SEC was \$3,861,300 by Enbridge Gas Distribution. The highest number for an electricity distributor was Horizon Utilities Limited's amount of \$565,479.

Staff further noted that THESL's request for recovery of this amount represents the first time the Board has been asked to approve the disposition of IFRS costs recorded in account 1508.

Staff submitted that before making a determination on the appropriateness of the cost recovery requested by THESL, it would be helpful for the Board to see other claims for recovery in order to assist it in assessing the reasonableness of THESL's claim. Accordingly, staff submitted that the Board should consider allowing THESL to recover 50% of the amount of these costs at the present time with the remainder to remain in the deferral account and be assessed for recovery in a future proceeding. Staff expressed the view that carrying charges on the remaining balance should continue to apply.

BOMA submitted that the Board should consider whether the approximate \$3 million of costs associated with bringing THESL's records up to date should be recovered through the IFRS account, or whether this cost should be to the account of the shareholder to reflect that this information should have been collected in the past, as done by other utilities.

Energy Probe adopted BOMA's arguments.

CCC noted that during cross-examination, Mr. Couillard indicated that approximately half of the total IFRS costs that THESL was seeking recovery for related to the fact that THESL did not have a fixed assets ledger that would provide the information the auditors were requesting for IFRS. CCC submitted that this was not the type of cost that the Board intended for recovery when it allowed for IFRS cost recovery. CCC argued that the Board should also look to what other LDCs have spent when assessing the reasonableness of THESL's IFRS costs and that THESL had not, in its view justified why its costs were so out of line relative to those of the other utilities discussed during the proceeding. CCC submitted that the Board should reduce the amount of THESL's allowed recovery by \$3 million, bringing THESL's costs more in line with the \$3.8 million of Enbridge.

SEC noted that it had submitted an Exhibit which contained a comparison of THESL's IFRS transition costs with those of other utilities, including Horizon, Hydro Ottawa and Enbridge. SEC stated that THESL's costs were more than ten times any of these utilities, except Enbridge, in which case when THESL was compared to a utility which was larger with geographically diverse and complex assets, but still had expenditures which were almost double the Enbridge amount.

SEC argued that just over \$3 million of these costs should be borne by the shareholder and not the ratepayers as they were the result of poor past record-keeping by THESL.

SEC submitted that with respect to the remainder of these costs of around \$3 million that the Board was without evidence as to their reasonableness. As such SEC argued, the Board should turn to comparable utilities to benchmark the spending. Using this analytical approach, SEC concluded that a reasonable gross IFRS transition cost amount for THESL would be \$2,366,004. However, SEC argued that this was not the comparable number as THESL had stated that there was another \$1 million embedded

in the 2011 agreed upon OM&A. SEC argued that to make an appropriate comparison, it would be necessary to deduct that amount, leaving a net amount of \$1,366,004.

SEC noted that staff had proposed that part of the balance in the account be recovered now and the rest remain in the account. SEC supported this solution, but proposed that different numbers be used.

SEC submitted that of the remaining \$3 million, the amount calculated above, i.e. the \$1,366,004 million be cleared as part of this application with the remaining \$1.7 million to be the subject of a future application, once the Board has better information on IFRS transitions cost levels of various Ontario distributors.

VECC stated that it had reviewed and adopted the submissions of SEC on this issue.

THESL submitted that the comparative evidence introduced by SEC that was related to IFRS costs incurred by other utilities was of little or no probative value to the Board given the nature of how the information was introduced. There was no opportunity for the applicant to seek additional information related to the numbers, nor to understand them better and it is not clear what, or what has not, been included in the costs. Because numbers for only five utilities were provided, it was not a comprehensive list.

THESL noted staff's submission that information on IFRS spending by LDCs in the province is incomplete and that the Board should allow for 50% of the requested recovery now, and leave the remainder in the deferral account for determination in a future proceeding. THESL disagreed with staff's proposal as in its view the Board has on the record of this proceeding a complete record of what was spent by THESL and as such should determine disposition in this proceeding.

THESL noted that a number of intervenors had suggested that costs incurred by THESL associated with gathering information on fixed assets should not be allowed. THESL disagreed with these suggestions. THESL argued that it had been clear that these costs were directly related to IFRS since they were associated with determining a detailed accounting inventory as the level of detail required under previous accounting and regulatory guidelines was not sufficient for the new IFRS accounting guidelines. THESL argued that this matter was further complicated by the amalgamation which it went through in the late 1990s and that it should not be punished for keeping records at a level of detail appropriate for accounting under the reporting regimes of the time.

(3) Line Loss Variance Account (1588)

Pollution Probe cross-examined THESL during the oral phase of this proceeding on the issue of whether or not the Board should continue its practice of maintaining for THESL Account 1588, the RSVA Power variance account.

THESL submitted that the Board had previously dealt with this issue in its EB-2007-0680 decision related to THESL's 2008-2009 rate years. The Board had found, at that time, that it would not be appropriate for it to direct a different regulatory treatment for the Applicant than for the sector as a whole by eliminating the provision for a true-up. THESL also noted that the Board had observed that THESL's line losses did not appear to be excessive.

THESL argued that there had been no fundamental change in circumstances that would warrant a departure from the Board's existing practice regarding line losses.

In the current proceeding, Pollution Probe submitted that THESL's request to continue its variance account for line losses should be denied and that the variance account should be eliminated. Pollution Probe argued that as a result of this variance account, THESL did not have a financial incentive to implement operational measures to reduce its losses and, in addition, the variance account diminishes its financial incentive to make capital investments to reduce its losses. Pollution Probe further submitted that if a variance account was not present, THESL would also have incentives for other programs that reduce losses, such as demand response programs or facilitating small scale combined heat and power plants. Pollution Probe argued that an electricity losses variance account should only be appropriate if it is necessary to shield the utility from unacceptable financial risks, which Pollution Probe submitted was not the case for THESL, particularly given the small magnitude of the variances.

Pollution Probe argued that with respect to the Board's 2008 decision the context had changed. Pollution Probe noted the concerns expressed by the Board in the 2008 decision about line losses and the Board's initiative that had been commenced in January 2008 to better understand this issue. Pollution Probe argued that since this initiative did not get to the recommendation stage, it should not now be used as a reason to continue THESL's variance account for line losses. Pollution Probe also stated that Hydro One did not have an electricity losses variance account. Pollution Probe submitted that managing line losses is an inherent part of a distributor's role and

function and does not amount to a potential “side business” needing complicated funding formulas or a different regulatory treatment. As such, Pollution Probe argued that THESL’s request to continue its variance account for electricity losses should be denied.

Staff agreed with THESL that there have been no fundamental changes in circumstances since the Board’s EB-2007-0680 decision that would justify a departure from the Board’s existing practice regarding line losses.

BOMA also noted that the Board had dealt with the issue of the line loss variance account in its 2008 decision and that at that time, the Board had indicated that it would not be appropriate to have a different regulatory treatment for THESL than for other distributors.

BOMA submitted that this was still the case today and that the Board should not depart from its existing practice with respect to line losses for THESL in this proceeding. However, BOMA saw merit in a sector wide review of the line loss variance account and whether or not distributors should be protected from the differences between forecast and actual losses.

Energy Probe adopted BOMA’s arguments and CCC accepted THESL’s position.

THESL argued that nothing had changed since the Board’s decision in EB-2007-0680 with respect to the treatment of line losses at which time the Board found that it was not “appropriate for the Board to direct a different regulatory treatment for the Applicant than for the sector as a whole” and, as such, Pollution Probe’s proposal that the variance account be removed should be rejected by the Board.

Board Findings

Issue 5.1 – Deferral and Variance Accounts

The only issue relating to the Late Payment Charges deferral account (1508) was with respect to the disposition period, as the amount and applicability of this account was decided by the Board in decision EB-2011-0295. The Board approves the disposition of this account over a 21 month period.

With respect to the IFRS deferral account (1508), the Board is concerned about the significant costs incurred by THESL in becoming IFRS compliant. As pointed out by several parties, these costs seem out of line with spending by other utilities. The testimony provided was that about half of the costs were due to inadequate records with respect to the fixed-asset ledger. The Board agrees with the arguments of certain parties that the costs to reconstruct records that should have been properly maintained from the outset should not be recoverable from ratepayers. The Board therefore disallows half of the amount, i.e. \$3.05 M, as THESL has stated that this was the approximate amount related to these costs.

Of the remaining \$3.05 M, the Board does not believe it will be of probative value to wait until a greater sampling of IFRS implementation costs is obtained from other utilities to determine the reasonableness of the remaining \$3.05 M. There will undoubtedly be many reasons why IFRS implementation costs may differ from one distributor to another. The Board orders the disposition of \$3.05 M from account 1508.

The Board has determined that the Line Loss Variance Account (1588) will be continued. In doing so, the Board is mindful of the fact that managing line losses is an inherent part of a distributor's role and function, as argued by several parties. However, this is a generic issue to be dealt with in the future, and one which requires adequate data in order to address properly. In the interim, the Board does not believe THESL should be treated any differently from any other distributor in the sector.

The disposition of all other deferral and variance accounts is approved as filed.

Suite Metering Issues

Background

The Board's decision of April 9, 2010 on THESL's EB-2009-0139 application of August 28, 2009 made the following finding regarding suite metering issues:

...the Board finds that THESL should undertake a cost allocation study related to its provision of suite metering services. The study shall include an analysis of the implications of creating and maintaining a separate rate class for those customers served in this manner. The Board is of the opinion that the potential for cross-subsidization is ongoing and that there may be merit in the

establishment of a separate rate class for multi unit-residential customers that are served directly by THESL through its suite metering provision. This should be filed as part of the next cost of service application, which THESL intends to file later this year, but in any event no later than six months from the date of this Decision.

On July 29, 2010, THESL sent a letter to the Board which noted the above direction from the Board. THESL stated that it had recently completed an RFP for the provision of services to develop a cost allocation study related to suite metering in its service territory and that the study was expected to be completed by the end of December 2010. Accordingly, THESL requested an extension to the filing deadline and proposed to file the study in early 2011.

On August 5, 2010, the Board granted THESL an extension of this deadline to December 1, 2010.

On December 1, 2010, THESL filed the relevant study entitled *Cost of Service for Individually Metered Suites in Multi-Unit Residential Buildings*. (the "initial study") dated November 29, 2010. The study was prepared by BDR North America Inc. ("BDR").

The key conclusion of the initial study was that suite-metered customers are paying their full cost of service, and more, and are not subsidized by other customers. Non-suite-metered residential customers and suite-metered customers were within the range of acceptable revenue to cost ratios identified by the Board. Therefore, the initial study concluded that separation of the class might not result in immediate adjustments to the level of rates, but if an adjustment were to be made in the direction of unity, it would result in a rate decrease for the suite-metered sub-class ("SMSC") customers and a rate increase for other residential customers. Finally, the initial study concluded that it did not appear that separation of the residential class would have a significant impact on the allocation of costs to other customer classes.

On January 14, 2011, the Smart Sub-metering Working Group ("SSMWG"), an intervenor in the proceeding, filed a Notice of Motion (the "Motion") requesting, among other things, that the Board direct THESL to provide full and complete answers to the interrogatories of the SSMWG on suite metering issues.

On January 21, 2011, the Board issued its Decision and Order on Motion (the "Motion Decision"). The Board denied the Motion with the exception of compelling THESL to provide an additional response to one part of one of the disputed interrogatories. However, the Board also found that it would be assisted by the provision of additional information by THESL in this area and required THESL to request BDR to produce an alternative scenario arising from the study (the "further study").

The further study required by the Board was to produce an alternative scenario to that provided in the initial study, which would be to divide the residential customer class into three sub categories. These would be: (i) the 9,243 suite metering customers as of the end of 2009, (ii) the approximately 110,000 remaining customers in the study's SMSC and (iii) all of the other residential customers, using the Board's approved methodologies. The Board specified that as discussed in the initial study, no secondary services costs should be allocated to the three residential customer sub categories specified by the Board, unless these costs would otherwise exist for THESL's account; i.e., be a cost to THESL. The Board stated that THESL, in undertaking this alternative scenario, through its expert BDR would be free to attach to it, any caveats or concerns which it had about the revised scenario.

The Board also directed THESL to request that BDR provide any further scenarios, in addition to the alternative scenario described by the Board, or any further information or analysis that BDR determined would be helpful in assessing whether and to what extent any cross-subsidy may exist between the different types of THESL customers relative to the suite metering customers.

On February 18, 2011, THESL filed the further study that had been ordered by the Board. In the further study, it was stated that the exercise had subdivided the SMSC from the November study into two sub-groups: the approximately 9,000 customers metered with Quadlogic meters, with a relatively low revenue-to-cost ratio and the other suite-metered customers with a high revenue-to-cost ratio. The further study stated that the key difference in the cost profile of these two customer groups is the high cost of Quadlogic meters, although the effects were stated as partially mitigated by the lower proportionate level of secondary costs.

The further study stated that at a revenue-to-cost ratio of 95:100, the Quadlogic customer revenue-to-cost ratio is therefore very different than for customers in multi-unit buildings who are not served with Quadlogic meters (130:100), but is not significantly

different from the overall revenue-to-cost ratio for the residential class, of 90:100, or of the largest residential sub-group, which is the non-suite-metered customers, with a revenue-to-cost ratio of 86:100.

The further study concluded that in its base case, the Quadlogic customers' revenue-to-cost ratio of 95:100 is well within the boundaries set by the Board for acceptable ratios, as well as by more stringent definitions.

Where the alternate scenarios were concerned, the further study concluded that a scenario reflecting what it characterized as confidently expected changes in meter reading costs, would raise the revenue-to-cost ratio for the Quadlogic customers to a level above unity, or full cost recovery through the rates. The further study noted that while other technology and pricing changes may create additional improvements, they could not be predicted as confidently as the meter reading cost change and therefore had not been reflected.

In its Argument-in-Chief, THESL adopted and reiterated its submissions made during the SSMWG Motion hearing that the initial study responded appropriately to the requirements of the Board, as outlined in its EB-2009-0139 decision. THESL submitted in addition that the further study had properly and fully met the Board's requirements as provided by its direction contained in the Motion decision.

THESL submitted that these studies show that a claim cannot be made that the residential suite metering sub-class is being subsidized by the residential class as a whole since the results show that irrespective of the precise definition of the 'suite metering sub-class,' that sub-class has a higher Revenue/Cost ratio than the residential class as a whole, and in the case where the sub-class comprises all members of the suite metered multi-unit residential building' group, the Revenue/Cost ratio significantly exceeds unity.

THESL argued that insufficient grounds exist to justify creating a separate sub-class of suite metered customers, especially when that sub-class is narrowly defined on the basis of what it saw as a transient technology. THESL stated that the evidence indicates that the Quadlogic sub-class Revenue/Cost ratio is well within Board guidelines and is in fact closer to unity than the residential class overall.

THESL submitted that while distributors were required by the Board to be suppliers of last resort to master consumers who wish to, or must, install unit meters through the provisions of the *Distribution System Code*, the SSMWG companies had willingly entered an existing marketplace and were sufficiently enticed to remain in that market, while being under no compulsion to do so.

THESL concluded that at the present time there is no clear basis to justify discrimination of the Revenue/Cost ratios as between two or more sub-classes of the residential class and as such no change should be made at this time.

SSMWG stated that its concern has always been the impact of THESL's Quadlogic suite metering activities and related conduct on the competitive market which exists for the installation, maintenance and customer care functions of multi-unit residential customers served by Quadlogic or similar-type metering systems.

SSMWG submitted that requiring THESL to establish a separate rate class for its suite metering customers may not be the best way for the Board to proceed.

SSMWG submitted that the Board has acknowledged and confirmed on several occasions that unit sub-metering is a competitive market activity and that THESL confirmed under cross-examination that it is competing against the members of the SSMWG for its Quadlogic suite metering customers. SSMWG submitted that while there can be no question that THESL is directly competing in the competitive suite-metering marketplace, it is not subject to the rigours of the competitive marketplace, unlike each of the SSMWG members. SSMWG expressed the belief and stated that the experience of its members shows that THESL's conduct in this competitive marketplace, without appropriate safeguards, is distorting and negatively impacting the competitive marketplace.

SSMWG argued that a key question of this proceeding had been whether or not other THESL ratepayers are cross-subsidizing THESL's Quadlogic customers and that the answer to this question was "yes", with the February BDR study estimating the amount of this cross-subsidy to be in the range of five percent. SSMWG's submission cited other factors that in its view increased the subsidy beyond the five percent figure. SSMWG also suggested that the magnitude of the subsidy was likely to increase in the future.

SSMWG submitted that the question before the Board at this time is what the significance of this subsidy is. SSMWG suggested that THESL and BDR played down the five percent subsidy because other residential ratepayers are being cross-subsidized to a slightly greater extent. SSMWG argued that what this argument failed to recognize was the fundamental distinction between the acceptable degree of cross-subsidy for the purpose of ratemaking in a non-competitive environment and the situation of a cross-subsidy existing in respect of competitive market activities undertaken by a rate-regulated utility. SSMWG submitted that in the latter instance, there can be no question that any cross-subsidy risks damaging the competitive market by making it difficult for all parties to compete and by giving improper price signals to consumers with the ultimate result of continued and increasing cross-subsidy potentially ruining the competitive market.

SSMWG noted that, generally speaking, distribution utilities are required to conduct competitive activities within an affiliate and that one reason the *Affiliate Relationships Code for Electricity Distributors and Transmitters* was created was to prevent any competitive advantage being provided to any affiliate of a regulated utility so as not to distort the competitive marketplace. SSMWG submitted that the fact that THESL has undertaken Quadlogic metering activities within the utility should not allow it to escape or avoid the rigours of safeguards to protect the competitive marketplace and to ensure that potential customers receive appropriate price signals.

SSMWG stated that in contemplating potential remedies for this situation, it was mindful of the regulatory burdens that would accompany a requirement that THESL annually develop rates for a subclass of customers in multi-residential buildings served by Quadlogic meters, which in the SSMWG's view would undoubtedly require THESL to undertake additional and expanded cost allocation studies each year and the SSMWG and intervenors to inquire about and to consider in greater detail such studies and the impacts on various stakeholders. SSMWG submitted that all of this would add costs to the process and in addition there would be ongoing administrative costs to THESL arising from the addition of a new rate subclass.

SSMWG also argued that there is also an issue of fairness in that it is the developer and building owner that benefit from the space savings that the use of the Quadlogic metering system provides. SSMWG submitted that where the developer or building owner is able to sell or lease this space, it stands to reason that all residential ratepayers should not be contributing to or paying for these benefits.

SSMWG therefore submitted that the question which arises is how in an efficient and practical fashion can safeguards be implemented which will eliminate or significantly reduce the likelihood of THESL negatively impacting the competitive market and/or sending out inappropriate price signals. SSMWG argued that given the complexity and additional costs of developing a new residential rate subclass or developing a rate adder based upon the additional costs of installing, maintaining and reading Quadlogic meters, it did not recommend that the Board order THESL to undertake either of these options.

SSMWG proposed instead what it stated was a straightforward and more cost effective and efficient way to deal with its concerns and create a level playing field in respect to the Quadlogic metering system business. This was to view it as a separate business unit.

SSMWG argued that it is only in respect of an upgrade to a Quadlogic metering system where THESL is competing with members of the SSMWG. The SSMWG argued that in order to make the playing field truly level, THESL should be required in the case of all new multi-unit residential developments to undertake only one economic evaluation and to require a building developer to pay the same or no capital contribution whether the building is installed with Quadlogic meters by a member of the SSMWG or THESL.

SSMWG submitted that the Board would, in effect, be requiring THESL to create a notional business for its Quadlogic suite metering activities and to prepare its offers to connect and undertake economic evaluations on the assumption that each new building will be served by a bulk meter (including the assumption that revenues would be received on that basis). SSMWG stated that under its proposal all of the activities from the bulk meter upstream would remain THESL activities, while all metering activities downstream in the notional Quadlogic meter business unit would be viewed as a separate and distinct activity to THESL's Quadlogic suite metering business activities.

SSMWG concluded that it did not wish to unnecessarily complicate the regulatory process and add additional costs to any stakeholder. SSMWG submitted that it was for this reason that it had attempted to propose a remedy which would be simple and cost effective to implement and which would clearly level the playing field between THESL and the privately-owned unit submetering companies which comprise the SSMWG.

Staff made no submissions on the suite metering issues. BOMA noted that the BDR Report had stated on page 3 that it did not appear that separation of the residential class would have a significant impact on the allocation of costs to other customer classes. BOMA submitted that based on this evidence, it did not take any position on the appropriateness of the cost allocation associated with suite metering, nor on the need to establish a separate rate class for multi-unit residential customers that are served directly by THESL through its suite metering provision.

CCC submitted that the evidence in this case was not, in its view, sufficient for the Board to move off of its long-standing rate-making principles, specifically that while every residential consumer imposes different costs on the system, rates are based on average costs. CCC argued that the evidence of BDR shows that the very problem the SSMWG assumed exists does not exist.

CCC submitted that where the issue of the competitiveness of the suite metering market was concerned, there was no evidence presented that THESL is somehow thwarting competition, or acting in a way that is bringing harm to other service providers. CCC noted that it may well be difficult for the members of the SSMWG to compete with THESL given THESL's position as a regulated utility and a longstanding service provider. However, CCC stated that the Government of Ontario has promoted competition in this market by allowing alternate service providers while at the same time requiring THESL to continue to provide the service. CCC submitted that if THESL is undermining the ability of the other service providers to compete, evidence to demonstrate this should be brought to the Board in the appropriate context.

SEC submitted that it had been its consistent position that participation by regulated utilities in competitive markets is generally to be avoided, and if it cannot be avoided, it should be supervised very tightly by the regulator. SEC stated that subject to its restatement of that general principle, it had no submissions on the suite metering issues that have been presented in this proceeding.

VECC submitted that it generally agreed with the conclusions of THESL that it would be inappropriate to create a separate rate class for suite metered customers based on the information available to inform the cost allocation study that was performed by BDR.

THESL argued that SSMWG's submissions did not challenge or even address the appropriateness of THESL's suite metering cost allocation study and that therefore the

Board should find that both of the studies submitted by THESL were appropriate and met the Board's requirements.

THESL argued that with regards to the question of establishing a separate rate class for multi-unit residential customers, the evidence on the record in this proceeding did not justify a departure from the Board's established and well accepted rate-making principles to allow for a new suite metering rate class. THESL noted that both VECC and CCC agreed. THESL also stated that the SSMWG submission conceded that there is insufficient evidence of a cross-subsidy to justify the additional complexity and costs associated with creating a new Quadlogic rate class.

THESL argued that SSMWG's proposal that THESL should be required to establish a new separately operated and regulated business to provide metering 'upgrades' should be rejected.

THESL also rejected the argument of SSMWG that there is an undue cross subsidy arising from the further study which showed that, when considering the Quadlogic metered customers only, the revenue/cost ratio is 0.95. THESL argued that the evidence clearly demonstrated, first, that the revenue/cost ratio for Quadlogic customers is closer to unity than for residential customers overall; second that this revenue/cost ratio is well within guidelines; and finally that there is no reason to believe that it will deteriorate but instead good reason to believe it will improve.

THESL submitted that there was no evidence of any predatory activity on the part of THESL or of any damage to the competitive market as a result of THESL's existing offerings. THESL submitted that SSMWG's implication that the mere existence of THESL in the market is itself directly injurious is unsupported and that the facts were that THESL's competitive position was highly constrained as THESL's offerings are strictly pursuant to its Board-approved tariff and no distinction or discrimination exists in THESL's treatment of standard residential customers compared to multi-unit residential buildings ("MURB") customers.

THESL argued that if the Board was to accept the submissions of the SSMWG, it would be faced with a major policy decision which would be to either bring all residential customers abruptly to a revenue/cost ratio of unity; or to discriminate the setting of the appropriate revenue/cost ratio as between residential customers in houses and residential customers in MURBs.

THESL submitted that the Board should deal with this matter by allowing THESL to bring the revenue/cost ratio for the residential class as a whole, closer to unity in a gradual and orderly fashion.

Board Findings

For clarity with respect to terminology, the Board notes that for the purposes of this Partial Decision and Order, a reference to “suite metering” means the installation of a separate meter for each unit of a multi-unit residential building where there is no bulk meter that is used for the purposes of settlement. Suite metering is a monopoly activity that can only be conducted by a licensed distributor and the rates for suite metering are, therefore, regulated.

Unit sub-metering (sometimes called suite sub-metering or smart sub-metering) is the installation by a licensed unit sub-meter provider of a separate meter for each unit of a multi-unit residential building “behind” the bulk meter, which is owned and operated by a licensed distributor. Unit sub-metering is a competitive and, therefore, non rate-regulated activity.

The Board has heard issues pertaining to suite metering, and specifically suite metering requiring Quadlogic meters, on numerous occasions in recent years. The matters arise due to the unique situation that exists whereby THESL, in the fulfilment of its regulated responsibilities, provides services that are in essence the same services that are provided in a competitive environment by members of the SSMWG.

In the Board’s view the issue between THESL and the SSMWG can be distilled down to the following positions.

THESL’s position is that no changes to the way it is conducting itself should be made because it is applying sound and longstanding Board sanctioned practices and policies in the treatment of its suite metering service provision.

The SSMWG position is that the manner in which THESL operates with respect to its suite metering service distorts the competitive environment in which the SSMWG members operate and therefore THESL should be compelled to alter its practices to nullify the distortion.

The Board accepts THESL's contention that it is operating in a fashion that comports to established rate making and cost recovery principles as it conducts its cost allocation and economic evaluation exercises. The Board accepts the central tenet of rate making whereby the averaging of costs within a class of customers is considered to be a practical and fair manner in which to avoid the inefficiencies associated with excessively granular cost driver analysis. The pooling of common service costs amongst customers of a common class irrespective of their individual and actual contribution to those costs also recognizes that most often the customer has little or no control over its actual contribution level to these types of costs. For example, actual distribution feeder costs vary depending on the distance a customer is from the starting point of the feeder. A customer has little opportunity to select where it will connect along a feeder and even if it did, feeder configurations are subject to change and different costs would be introduced. The pooling principle responds to matters of both efficiency and fairness in the rate making process.

However, the rather unique regulatory framework involving both monopoly and competitive services occupying the same space introduces another consideration that must be recognised by the Board. It would be insufficient for the Board to limit its review of the situation to a consideration of whether or not THESL is operating in a manner that has been accepted in the past and whether or not it has applied well established principles of ratemaking. The legislative framework that has been introduced brings with it matters of public policy that must be considered in the review of THESL's operating protocols associated with its provision of suite metering services. It is not a matter of whether or not THESL is operating in a predatory fashion. The simple co-existence of the monopoly and competitive services necessitates a thorough and purposeful review.

The metering of individual multi-residential dwellings is a significant Government initiative in support of its energy conservation policies. The legislative intent that a competitive market for the provision of unit sub-metering should exist is clear. It is also clear that the provision of suite metering by regulated monopolies such as THESL is permitted. The fact that multi-unit residential building developers have the option to obtain separate smart meters for individual units within a building from either the competitive unit sub-metering market or a regulated monopoly (suite metering) introduces a complication that must be managed, not ignored or avoided. It is not business as usual when it comes to setting rates in this environment.

The Board finds that due to the existence of a competitive market for the provision of unit sub-metering it is appropriate to ensure that procurement choices, as between licensed distributors (suite metering) and licensed unit sub-meter providers (unit sub-metering) are made on a comparable economic basis both within the competitive unit sub-metering marketplace and between this competitive market place and the monopoly service. Within the competitive market place the conduct of the service providers will be driven by normal competitive forces and the best price will emerge. The determination of the true cost of the provision of suite metering as part of the monopoly service for comparison purposes is more complicated but the Board considers it to be warranted.

The Board has determined that the creation and maintenance of a separate rate class for multi-residential customers that at the present time are served utilizing Quadlogic technology is the most effective and transparent manner in which to address the aforementioned issues.

The transparency of the specific costs of the suite metering service is required on an ongoing basis. The Board has concluded that it would be more effective to utilize the existing cost allocation tools and input protocols to set a specific rate for these customers than to have THESL periodically perform the types of studies that have been produced for this application.

A virtue of establishing an ongoing cost-allocation process is that the accounting protocols are established in advance and real activity costs are tracked with the intent to identify the class revenue requirement. The Board considers the merit of this approach of exposing the specific costs to be superior to the options that require the deconstruction of pooled costs of the much larger residential rate class on a retroactive basis.

The Board does not therefore consider it necessary to approach the exercise in the manner proposed by SSMWG whereby a concept of THESL operating a “notional” business is adopted.

The Board agrees with THESL’s assertion that it is not appropriate to base a rate class on a specific technology that is likely to evolve over time. The rate class that the Board has determined to be required shall be initially identified on the basis of the current technology but the ongoing existence of the class is not predicated on the ongoing existence of this particular technology. Technology advancements are surely to occur.

These advancements will be available to both THESL in its supply of the rate regulated suite metering service and to the suppliers of the unit sub-metering. The need to expose the specific costs of the suite metering service will remain so long as there is a choice to be made between the rate regulated service and the competitive marketplace.

The Board will therefore require supplementary evidence to be filed on this suite metering issue. The objective of the subsequent phase of the proceeding is to establish both the cost allocation protocols for the new customer class and to establish the initial tariff that THESL will charge for this service. The Board will issue a procedural order under the current docket number containing filing instructions to THESL and subsequent procedural steps to facilitate further discovery and examination to facilitate this objective.

To be clear, all findings in this current Partial Decision and Order are final and will result in a final rate order for 2011 rates. Any rate implications that arise from the findings in the supplementary proceeding will be reflected in THESL's 2012 rates (whether determined as part of a rebasing or IRM application) and will not have retroactive effect in any way.

Cost Allocation

Background

There were two unsettled issues in the area of cost allocation, other than the suite metering issues. These were 7.1 "Is THESL's cost allocation appropriate?" and 7.4 "Are the proposed revenue to cost ratios for each class appropriate?"

THESL noted that in respect of Issue 7.1, parties were able to settle the appropriateness of its cost allocation with one exception, which was that intervenors did not agree with the methodology used by THESL to account for the transformer ownership allowance ("TOA"). Where Issue 7.4 was concerned, parties were unable to reach an agreement on THESL's proposed revenue to cost ratios for each class.

Where Issue 7.1 was concerned, THESL argued that its treatment of the TOA was appropriate. THESL submitted that it had used the Board's cost allocation model, adjusted for a shortcoming in the way TOA costs were allocated in the model to allocate the revenue requirement and to form the basis for determining rates for each of the

classes. THESL further submitted that in any event, its approach had only been used to derive “starting point” revenue to cost ratios.

THESL argued that even if parties disagreed with the method used to derive these “starting point” revenue to cost ratios, the costs that it proposed to collect from each class were completely independent of this starting point. As such, THESL submitted that any concerns with the “starting point” revenue to cost ratios are at most academic in that they do not in any way alter its proposed cost allocation.

Where Issue 7.4 is concerned, THESL submitted that its proposed revenue to cost ratios are within the Board’s guidelines and a continual incremental move toward full cost recovery for all classes is appropriate.

Staff accepted THESL’s positions on these matters and noted that THESL’s overall approach to cost allocation is essentially the same as that which it has used in previous applications and which was accepted by the Board and intervenors as part of the Settlement Agreement related to its 2010 revenue requirement application (EB-2009-0139).

VECC argued that with respect to Issue 7.1, the matter that was before the Board was how the TOA should be treated in the cost allocation methodology used to determine the “existing” revenue to cost ratios. VECC submitted that the Board should require that THESL use the “alternative” approach to the TOA as set out in the Board’s guidelines and as proposed by VECC rather than the approach advanced by THESL in its application.

With respect to Issue 7.4, whether or not the proposed revenue to cost ratios for each class are appropriate, VECC noted that THESL had continued to move the revenue to cost ratios incrementally towards unity on the principle that each class should be paying the full amount of costs that they incur.

VECC submitted that there were two reasons why THESL’s proposal should be rejected in favour of one that moves the customer class ratios to boundaries set by the Board’s recommended ranges and adjusts other class ratios only as required to reconcile with the overall approved revenue requirement.

The first is that THESL's approach is inconsistent with the *Application of Cost Allocation for Electricity Distributors* Report (EB-2007-0667) as the Board indicated in this report that distributors should endeavour to move their revenue to cost ratios closer to one, if this move was supported by improved cost allocations, which VECC argued was not the case where THESL was concerned.

The second reason is that this proposal is inconsistent with the positions of THESL and its consultants (BDR) regarding cost allocation and the treatment of suite metered residential customers, which VECC argued was at odds with a plan to move the ratios closer to 100% than required by the Board's policy.

AMPCO submitted that the THESL approach to the treatment of TOA in this application is the better approach and where revenue to cost ratios were concerned, unity should be the target and any other revenue-to-cost ratio would be inconsistent with the principle of cost causality, as in the setting of just and reasonable rates, each customer class should be paying the cost to service the class.

BOMA submitted that THESL's cost allocation is not appropriate because of the way it treats the revenues needed to offset the TOA. BOMA supported the VECC approach to this matter. BOMA, however, supported THESL's proposed revenue to cost ratios. BOMA submitted that the increases in the rate classes that see their revenue to cost ratios moving up towards 100 percent are all impacts that can be borne by these classes.

CCC stated that it has had the opportunity to review the submissions made by VECC on these matters and was in substantial agreement with its positions.

SEC supported the submissions of VECC on the TOA and expressed the belief that the revenue to cost ratios should not be moved closer to unity unless that same principle is applied to other cases, which SEC stated to date the Board has been reluctant to do.

THESL rejected the argument of VECC that the application of its methodology would not result in it recovering the overall proposed revenue requirement. THESL argued that under its methodology with its proposed Revenue to Cost Ratios, the full revenue requirement is in fact recovered and only those classes getting the TOA are paying for it. As such, its proposed treatment is correct and consistent with proper allocation of costs.

THESL also rejected the argument of VECC that its proposed gradual move to unity for the Revenue to Cost ratios for each of the rate classes is inappropriate. THESL stated its belief that it was being responsible to all customers in its proposal. THESL agreed with VECC that a consistent Board policy was desirable and that such a policy needs to reflect fairness to all customers. THESL argued that its proposal accomplished this.

Board Findings

Issue 6.1 – Transformer Ownership Allowance Methodology

The Board finds that the methodology used by THESL to account for the transformer allowance is inconsistent with the Board's June 2010 *Filing Guidelines for Transmission and Distribution Applications* (the "Guidelines"). The Guidelines stipulate that the distribution revenue from each customer class is to be calculated net (emphasis added) of any transformer ownership allowance. The Guidelines also specifically address the shortcoming noted by THESL in the way transformer ownership allowance costs were allocated in the Board's cost allocation model.

The Board is not convinced that the approach put forth by THESL is superior to that set out in the Guidelines and is not persuaded that a deviation from the standard approach used by other utilities for the purposes of setting 2011 rates is warranted. In particular, the Board notes that under the approach put forth by THESL, the level of the transformer ownership allowance changes the revenue-to-cost ratio of a customer class, when it should not.

The Board finds that THESL should use the approach set out in the Board's Guidelines and as proposed by VECC to calculate its starting revenue-to-cost ratios by customer class. The Board notes that this finding is also consistent with the March 31, 2011 Report of the Board (EB-2010-0219) as it relates to the treatment of transformer ownership allowance set out in that Report.

The Board is also of the view that the starting revenue-to-cost ratios for each customer class are relevant. In particular, the Board believes that consistently calculated revenue-to-cost ratios have important consequences as it relates to the application of the Board's revenue-to-cost ratio policy, set out in the EB-2007-0667 Report *Application of Cost Allocation for Electricity Distributors*. Specifically, the starting revenue to cost ratio is determinative of whether migration to the upper or lower end of a range is warranted

or whether improved cost allocation information is required to justify the movement of the revenue-to-cost ratio closer to one, within a range.

Finally as set out herein, the Board does not find it to be determinative in the context of this application that the methodology put forth by THESL was accepted by the Board and intervenors as part of the Settlement Agreement related to THESL's 2010 revenue requirement application (EB-2010-0139). Settlement Agreements accepted by the Board do not necessarily create a precedent for the Board. Moreover, Settlement Agreements usually reflect a number of trade-offs negotiated between the parties, and the Board believes it would be inappropriate to take one particular item in isolation, out of the context of the remainder of the Settlement Agreement.

Issue 7.4 – Revenue-to-Cost Ratios

The Board finds that the proposed revenue-to-cost ratios are not appropriate and are not consistent with the Board's revenue-to-cost policy report (EB-2007-0667). In that report, the Board set out that an incremental approach is appropriate and that a range approach is preferable to implementation of a specific revenue-to-cost ratio. The Board also stated that distributors should endeavour to move their revenue-to-cost ratios closer to one if this is supported by improved cost allocations. THESL did not file updated or improved cost allocation information and continues to rely on 2006 information to define the load profiles for certain customer classes.

Based on these findings and those set out above, the Board directs THESL to recalculate the starting revenue-to-cost ratios by customer class. For those customer classes with starting revenue-to-cost ratios greater than or less than the upper or lower end of the range provided by the Board in EB-2007-0667, THESL is directed to move the customer class ratio to the upper or lower boundary, as appropriate, and to adjust other class ratios only as required to reconcile with the overall approved revenue requirement.

Implementation Issues

On March 25, 2011, THESL filed a letter with the Board formally requesting an order of the Board making its existing distribution rates interim, effective May 1, 2011.

The Board granted this request during the first day of the oral hearing.

In its letter, THESL also proposed to implement the approved final rates for 2011, including the LPP rate riders on August 1, 2011, together with a set of fixed term rate riders to collect foregone revenue for May, June and July 2011.

THESL submitted that this was the first viable implementation date given the practical impossibility of implementing rates on May 1, 2011 and THESL's subsequent billing system conversion, which had been scheduled to occur after the initially envisaged May 1, 2011 implementation. THESL added that it was particularly concerned with the practical difficulties and associated risk of attempting to implement new rates in the middle of a major billing system conversion.

Staff accepted THESL's positions on this matter, noting that no parties expressed concerns with THESL's proposal and that based on the total bill impact information filed by THESL regarding the impact of this proposal, most customer classes would be experiencing either decreases in their bills, or increases of less than 1.5 percent.

SEC submitted that the Board should accept the Applicant's proposed implementation date of August 1, 2011. SEC stated that this would likely disadvantage schools which have low billing determinants in July and therefore would bear a higher effective cost for July if charged based on billing determinants for the rest of the year. SEC, however, submitted that the potential problems associated with implementing a new billing system at the same time as new rates outweighs this issue.

Board Findings

The Board approves an effective date for rates of May 1, 2011, as per the Settlement Agreement and approves the implementation of final rates on August 1, 2011, as proposed by THESL. The Board also approves a rate rider to collect foregone revenue for May, June, and July 2011. This rate rider is effective until April 30, 2012. The Board notes that no party expressed concern with this approach.

Implementation

Draft Rate Order

The Board has made findings in this Decision which change the 2011 revenue requirement and therefore change the distribution rates from those proposed by THESL.

In filing its draft Rate Order, it is the Board's expectation that THESL will not use a calculation of the revised revenue deficiency to reconcile the new distribution rates with the Board's findings in this Decision. Rather, the Board expects THESL to file detailed supporting material, including all relevant calculations showing the impact of this Decision on THESL's revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates. Supporting documentation shall include, but not be limited to, filing a completed version of the Revenue Requirement Work Form excel spreadsheet which can be found on the Board's website. THESL should also show detailed calculations of the revised retail transmission service rates and variance account rate riders reflecting this Decision.

THESL applied for rates effective May 1, 2011 with an implementation date of August 1, 2011. The Board approves a May 1 effective date and the August 1, 2011 implementation date.

Cost Awards

The Board may grant cost awards to eligible stakeholders pursuant to its power under section 30 of the *Ontario Energy Board Act, 1998*. When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of the Board's *Practice Direction on Cost Awards*. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

All filings with the Board must quote the file number EB-2010-0142, and be made through the Board's web portal at www.errr.ontarioenergyboard.ca, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must be received by the Board by 4:45 p.m. on the stated date. Parties should use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.oeb.gov.on.ca. If the web portal is not available, parties may e-mail their documents to the attention of the Board Secretary at BoardSec@ontarioenergyboard.ca. All other filings not filed via the Board's web portal should be filed in accordance with the Board's *Practice Directions on Cost Awards*.

THE BOARD ORDERS THAT:

1. THESL shall file with the Board, and shall also forward to intervenors, a draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision, within 7 days of the date of this Decision. The draft Rate Order shall also include customer rate impacts and detailed supporting information showing the calculation of the final rates including the Revenue Requirement Work Form in Microsoft Excel format.
2. Intervenors shall file any comments on the draft Rate Order with the Board and forward to THESL within 4 days of the date of filing of the draft Rate Order.
3. THESL shall file with the Board and forward to intervenors responses to any comments on its draft Rate Order within 4 days of the date of receipt of intervenor submissions.
4. Intervenors shall file with the Board and forward to THESL their respective cost claims within 21 days from the date of this Decision.
5. THESL shall file with the Board and forward to intervenors any objections to the claimed costs within 28 days from the date of this Decision.
6. Intervenors shall file with the Board and forward to THESL any responses to any objections for cost claims within 35 days of the date of this Decision.
7. THESL shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

DATED at Toronto, July 7, 2011

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

Appendix “A” – Intervenors

EB-2010-0142

July 7, 2011

Toronto Hydro-Electric System Limited
EB-2010-0142

APPLICANT & LIST OF INTERVENORS

July 7, 2011

APPLICANT

Rep. and Address for Service

Toronto Hydro-Electric System Limited **Glen Winn**

Manager of Rate Applications
Toronto Hydro-Electric System Limited
14 Carlton Street
Toronto, ON M5B 1K5

Tel: 416-542-2517
Fax: 416-542-2776
regulatoryaffairs@torontohydro.com

APPLICANT COUNSEL

J. Mark Rodger
Counsel
Borden Ladner Gervais LLP
Scotia Plaza 40 King St. W
Toronto ON M5H 3Y4
Tel: 416-367-6190
Fax: 416-361-7088
mrodger@blgcanada.com

INTERVENORS
AECON Utilities

Rep. and Address for Service

Patricia Skringer
Legal Counsel
AECON Utilities
20 Carlson Court
Suite 800
Toronto ON M9W 7K6
Tel: 416-293-7004
Fax: 416-940-2290
pskringer@aecon.com

Toronto Hydro-Electric System Limited
EB-2010-0142

APPLICANT & LIST OF INTERVENORS

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July 7, 2011

AMPCO

Adam White

President
Association of Major Power Consumers in Ontario
372 Bay Street
Suite 1702
Toronto ON M5H 2W9
Tel: 416-260-0225
Fax: 416-260-0442
awhite@ampco.org

Shelley Grice

Consultant
AITIA Analytics Inc.
c/o AMPCO
372 Bay Street
Suite 1702
Toronto ON M5H 2W9
Tel: 647-880-9942
Fax: 416-260-0442
shelley.grice@rogers.com

Wayne Clark

Consultant
SanZoe Consulting Inc.
25 Priest Avenue
Minesing ON LOL 1Y3
Tel: 705-728-3284
Fax: 705-721-0974
c.w.clark@sympatico.ca

Toronto Hydro-Electric System Limited
EB-2010-0142

APPLICANT & LIST OF INTERVENORS

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July 7, 2011

AMPCO

David Crocker

Davis LLP

1 First Canadian Place, Suite 5600

PO Box 367

100 King Street West

Toronto ON M5X 1E2

Tel: 416-941-5415

Fax: 416-777-7431

dcrocker@davis.ca

**Building Owners and
Managers Assoc. of the
Greater Toronto Area (BOMA)**

Chris Conway

President and Chief Staff Officer

Building Owners and Managers Assoc. of the Greater
Toronto Area (BOMA)

20 Queen Street West

Suite 2012

Toronto ON M5H 3R3

Tel: 416-596-8065

Fax: 416-596-1085

cconway@bomatoronto.org

Randy Aiken

Aiken & Associates

578 McNaughton Ave. W.

Chatham ON N7L 4J6

Tel: 519-351-8624

Fax: 519-351-4331

randy.aiken@sympatico.ca

Toronto Hydro-Electric System Limited
EB-2010-0142

APPLICANT & LIST OF INTERVENORS

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July 7, 2011

Consumers Council of Canada Julie Girvan

Consultant
Consumers Council of Canada
62 Hillsdale Ave. East
Toronto ON M4S 1T5
Tel: 416-322-7936
Fax: 416-322-9703
jgirvan@ca.inter.net

Robert B. Warren

Counsel
WeirFoulds LLP
The Exchange Tower
Suite 1600, P.O. Box 480
130 King Street West
Toronto ON M5X 1J5
Tel: 416-947-5075
Fax: 416-365-1876
rwarren@weirfoulds.com

CUPE Local One

John Camilleri

President
CUPE Local One
890 Yonge St.
Suite 1001
Toronto ON M4W 3P4
Tel: 416-968-2549
Fax: 416-968-6836
jcamilleri@cupeone.com

Toronto Hydro-Electric System Limited
EB-2010-0142

APPLICANT & LIST OF INTERVENORS

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July 7, 2011

CUPE Local One

Stephanie Hobbs
Sack Goldblatt Mitchell LLP
20 Dundas St. W.
Suite 1100
Toronto ON M5G 2G8
Tel: 416-979-4235
Fax: 416-591-7333
shobbs@sgmlaw.com

**Energy Probe Research
Foundation**

David MacIntosh
Case Manager
Energy Probe Research Foundation
225 Brunswick Avenue
Toronto ON M5S 2M6
Tel: 416-964-9223 Ext: 235
Fax: 416-964-8239
DavidMacIntosh@nextcity.com

Olena Loskutova
Energy Probe Research Foundation
c/o Energy Probe
225 Brunswick Ave.
Toronto ON M5S 2M6
Tel: 416-964-9223 Ext: 234
Fax: 416-964-8239
olena.loskutova@gmail.com

Peter Faye
Counsel
Consultant
42 Eastwood Crescent
Markham ON L3P 5Z7
Tel: 905-294-2013
Fax: Not Provided
pfaye@rogers.com

Toronto Hydro-Electric System Limited
EB-2010-0142

APPLICANT & LIST OF INTERVENORS

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July 7, 2011

**Entera Utility Contractors Co.
Limited**

John De Vellis

Shibley Righton LLP
250 University Ave.
Suite 700
Toronto ON M5H 3E5
Tel: 416-214-5232
Fax: 416-214-5432
john.devellis@shibleyrighton.com

Horizon Utilities Corporation

Indy Butany-DeSouza

Vice President
Horizon Utilities Corporation
55 John Street North
PO Box 2249 STN LCD 1
Hamilton ON L8N 3E4
Tel: 905-317-4765
Fax: Not Provided
indy.butany@horizonutilities.com

Pollution Probe Foundation

Basil Alexander

Klippensteins, Barristers & Solicitors
160 John St. Suite 300
Toronto ON M5V 2E5
Tel: 416-598-0288
Fax: 416-598-9520
basil.alexander@klippensteins.ca

Jack Gibbons

Public Interest Economics
625 Church St. Suite 402
Toronto ON M4Y 2G1
Tel: 416-926-1907 Ext: 240
Fax: 416-926-1601
jgibbons@pollutionprobe.org

Toronto Hydro-Electric System Limited
EB-2010-0142

APPLICANT & LIST OF INTERVENORS

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July 7, 2011

Pollution Probe Foundation

Murray Klippenstein
Klippensteins, Barristers & Solicitors
160 John St. Suite 300
Toronto ON M5V 2E5
Tel: 416-598-0288
Fax: 416-598-9520
murray.klippenstein@klippensteins.ca

PowerStream Inc.

Christine Dade
Manager
PowerStream Inc.
161 Cityview Boulevard
Vaughan ON L4H 0A9
Tel: 905-532-1052
Fax: 905-532-4616
Christine.dade@powerstream.ca

School Energy Coalition

Jay Shepherd
Jay Shepherd Professional Corporation
2300 Yonge St.
Suite 806
Toronto ON M4P 1E4
Tel: 416-483-3300
Fax: 416-483-3305
jay.shepherd@canadianenergylawyers.com

Wayne McNally
SEC Coordinator
Ontario Public School Boards' Association
439 University Avenue, 18th Floor
Toronto ON M5G 1Y8
Tel: 416-340-2540
Fax: 416-340-7571
wmcnally@opsba.org

Toronto Hydro-Electric System Limited
EB-2010-0142

APPLICANT & LIST OF INTERVENORS

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July 7, 2011

School Energy Coalition

Tom Adams

Jay Shepherd Professional Corporation
2300 Yonge Street
8th Floor, Suite 806
Toronto ON M4P 1E4
Tel: 416-483-3300
Fax: 416-483-3305
tom.adams.energy@gmail.com

**Smart Sub-metering Working
Group**

Dennis O'Leary

Aird & Berlis LLP
181 Bay Street
Suite 1800
Box 754
Toronto ON M4J 2T9
Tel: 416-865-4711
Fax: 416-863-1515
doleary@airdberlis.com

**Vulnerable Energy Consumers
Coalition**

Michael Buonaguro

Counsel
Public Interest Advocacy Centre
34 King St. E., Suite 1102
Toronto ON M5C 2X8
Tel: 416-767-1666
Fax: 416-348-0641
mbuonaguro@piac.ca

Toronto Hydro-Electric System Limited
EB-2010-0142

APPLICANT & LIST OF INTERVENORS

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July 7, 2011

**Vulnerable Energy Consumers
Coalition** **Roger Higgin**

Managing Associate
Econalysis Consulting Services Inc.
34 King St. E.
Suite 1102
Toronto ON M5C 2X8
Tel: 416-348-9391
Fax: 416-348-0641
rhiggin@econalysis.ca

Bill Harper
Econalysis Consulting Services Inc.
34 King Street East Suite 1102
Toronto On M5C 2X8
Tel: 416-348 0193
Fax: 416-348-0641
bharper@econalysis.ca

Appendix “B” – Issues List

EB-2010-0142

July 7, 2011

**Appendix “B”
Toronto Hydro-Electric System Limited
EB-2010-0142**

Approved Final Issues List

1. GENERAL

- 1.1 Has Toronto Hydro responded appropriately to all relevant Board directions from previous proceedings?
- 1.2 Are Toronto Hydro’s economic and business planning assumptions for 2011 appropriate?
- 1.3 Is service quality, based on the OEB specified performance indicators, acceptable?
- 1.4 Is the overall increase in the 2011 revenue requirement reasonable?
- 1.5 When would it be appropriate for Toronto Hydro to commence filing rate applications under incentive regulation? Is this application an appropriate base case for a future IRM application? If not, why not?

2. LOAD and REVENUE FORECAST

- 2.1 Is the load forecast and methodology appropriate and have the impacts of Conservation and Demand Management initiatives been suitably reflected?
- 2.2 Is the proposed amount for 2011 other revenues appropriate?

3. OPERATIONS, MAINTENANCE and ADMINISTRATION COSTS

- 3.1 Are the overall levels of the 2011 Operation, Maintenance and Administration budgets appropriate?
- 3.2 Is the proposed level of 2011 Shared Services and Other O&M spending appropriate?
- 3.3 Are the methodologies used to allocate Shared Services and Other O&M costs to the distribution business for 2011 appropriate?
- 3.4 Are the 2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Toronto Hydro demonstrated improvements in efficiency and value for dollar associated with its compensation costs?
- 3.5 Is Toronto Hydro’s depreciation expense appropriate?
- 3.6 Are the amounts proposed for capital and property taxes appropriate?
- 3.7 Is the amount proposed for PILs, including the methodology, appropriate?

4. CAPITAL EXPENDITURES and RATE BASE

- 4.1 Are the amounts proposed for Rate Base appropriate?
- 4.2 Are the amounts proposed for 2011 Capital Expenditures appropriate including the specific Operational and Emerging Requirements categories?
- 4.3 Are the inputs used to determine the Working Capital component of the Rate Base appropriate and is the methodology used appropriate?
- 4.4 Does Toronto Hydro's Asset Condition Assessment information and Investment Planning Process adequately address the condition of the distribution system assets and support the O&MA and Capital expenditures for 2011?

5. CAPITAL STRUCTURE AND COST OF CAPITAL

- 5.1 Is the proposed Capital Structure, Rate of Return on Equity, and Short-Term Debt Rate appropriate?
- 5.2 Is the proposed Long-Term Debt Rate appropriate?
- 5.3 Is the proposed dollar cost of Long-Term Debt appropriate after having regard to the transaction undertaken by the holder of the \$490 million promissory notes in March 2010?

6. DEFERRAL and VARIANCE ACCOUNTS

- 6.1 Is the proposal for the amounts, disposition and continuance of Toronto Hydro's existing Deferral and Variance Accounts appropriate?

7. COST ALLOCATION and RATE DESIGN

- 7.1 Is Toronto Hydro's cost allocation appropriate?
- 7.2 Is Toronto Hydro's suite metering cost allocation appropriate?
- 7.3 Is it appropriate for Toronto Hydro to establish a separate rate class for multi-unit residential customers that are served directly by Toronto Hydro through its suite metering provision?
- 7.4 Are the proposed revenue to cost ratios for each class appropriate?
- 7.5 Are the fixed-variable splits for each class appropriate?
- 7.6 Are the proposed Retail Transmission Service rates appropriate?
- 7.7 Are the proposed Total Loss Factors appropriate?

8. SMART METERS

8.1 Is Toronto Hydro's proposal to include its 2011 smart meter costs in rate base as a regular distribution activity appropriate?

8.2 Are the proposed 2011 smart metering costs appropriate?

9. SMART GRID PLAN

9.1 Does Toronto Hydro's Smart Grid Plan meet the Board's filing guidelines and the objectives set out in the Green Energy and Green Economy Act, 2009?

9.2 Has Toronto Hydro appropriately addressed the Smart Grid Plan expenditures in the context of its overall Capital and O&M budgets?

9.3 Is Toronto Hydro's approach to allocating Smart Grid Plan O&M and Capital costs to its distribution customers appropriate?

Appendix “C” – Settlement Agreement

EB-2010-0142

July 7, 2011

Glen Winn
14 Carlton St
Toronto, Ontario M5B 1K5

Telephone: 416-542-2517
Facsimile: 416-542-3024
regulatoryaffairs@torontohydro.com



March 25, 2011

via RESS e-filing – original to follow by courier

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

Dear Ms. Walli:

**RE: Toronto Hydro-Electric System Limited (THESL)
2011 EDR Application – Settlement Proposal
OEB File No. EB-2010-0142**

A Settlement Conference between the parties in this proceeding took place the week of February 28, 2011. A Settlement Proposal was agreed to by the parties and in accordance with Procedural Order 9 issued by the Board on February 1, 2011, attached is the Settlement Proposal.

Yours truly,

[Original signed by]

Glen A. Winn
Manager, Regulatory Applications & Compliance
regulatoryaffairs@torontohydro.com

cc: Registered Intervenors in EB-2010-0142
J. Mark Rodger, Counsel to THESL

EB-2010-0142
TORONTO HYDRO-ELECTRIC SYSTEM LIMITED
SETTLEMENT PROPOSAL
March 25, 2011

Toronto Hydro-Electric System Limited

EB-2010-0142

Settlement Proposal

Filed with OEB: March 25, 2011

This settlement proposal is filed with the Ontario Energy Board (“the Board”) in connection with an application by Toronto Hydro-Electric System Limited (“THESL” or “Toronto Hydro”) for an Order or Orders fixing just and reasonable distribution rates and other charges, effective May 1, 2011 (Board Docket Number EB-2010-0142) (the “Application”).

Further to the Board’s Procedural Order No. 3 dated December 13, 2010, a settlement conference was held commencing on January 25, 2011 in accordance with the Board’s *Rules of Practice and Procedure* (the “Rules”) and the Board’s *Settlement Conference Guidelines* (the “Guidelines”).

On January 26, 2011, THESL filed a letter with the Board which requested an adjournment to the settlement discussions until THESL could file an update to its application to reflect material, late breaking mandatory accounting changes (the “Accounting Update”). The Board approved the adjournment in its Procedural Order No. 8 dated January 27, 2011 and the settlement conference reconvened on February 28, 2011 pursuant to the Board’s Procedural Order No. 9 dated February 1, 2011.

Mr. Ken Rosenberg acted as facilitator for the settlement conference, which continued until March 4, 2011. THESL and the following intervenors (the “intervenors”, and collectively including THESL, the “parties”) participated in the settlement conference:

- Association of Major Power Consumers in Ontario (“AMPCO”)
- Building Owners and Managers Association of the Greater Toronto Area (“BOMA”)
- Consumers Council of Canada (“CCC”)
- Energy Probe Research Foundation (“Energy Probe”)
- Pollution Probe Foundation (“PP”)
- School Energy Coalition (“SEC”)
- Smart Sub-metering Working Group (“SSMWG”)
- Vulnerable Energy Consumers Coalition (“VECC”)

AECON Utilities, the Canadian Union of Public Employees (Local One), Entera Utility Contractors Co. Limited, Horizon Utilities Corporation, Powerline Plus Ltd., and PowerStream Inc. did not participate in the settlement conference and are not parties to this settlement proposal.

These settlement proceedings are subject to the rules relating to confidentiality and privilege contained in the *Guidelines*. The parties understand this to mean that the documents and other information provided, the discussion of each issue, the offers and counter-offers, and the negotiations leading to the settlement – or not – of each issue during the settlement conference are strictly confidential and without prejudice. None of the foregoing is admissible as evidence in this proceeding, or otherwise, with one exception: the need to resolve a subsequent dispute over the interpretation of any provision of this settlement proposal.

The role adopted by Board staff in the Settlement Conference is set out in page 5 of the *Guidelines*. Although Board staff is not a party to this Agreement, as noted in the *Guidelines*, Board staff who participated in the Settlement Conference are bound by the same confidentiality standards that apply to the Parties to the proceeding.

For ease of reference, the settlement proposal follows the format of the Approved Final Issues List provided in the Board’s Procedural Order No. 2 dated November 11, 2010 (which is hereto attached as Appendix “A”). The following table describes how the issues have been characterized for the purposes of this settlement proposal and provides a summary of the status of the issues at the outcome of the settlement conference:

<p>Complete Settlement: An issue for which complete settlement was reached by all parties. If this settlement proposal is accepted by the Board, the parties will not adduce any evidence or argument during the oral hearing in respect of these issues.</p>	<p># issues settled: [23]</p>
<p>Partial Settlement: An issue for which there is partial settlement, as THESL and the intervenors who take any position on the issue were able to agree on some, but not all, aspects of the particular issue. If this settlement proposal is accepted by the Board, the parties who take any position on the issue may only adduce evidence and argument during the hearing on those portions of the issues not addressed in this settlement proposal.</p>	<p># issues partially settled: [6]</p>
<p>No Settlement: An issue for which no settlement was reached. THESL and the intervenors who take a position on the issue may adduce evidence and/or argument at the hearing on the issue.</p>	<p># issues not settled: [5]</p>

A party who is noted as taking no position on an issue may or may not have participated in the discussion on that particular issue, but in any event takes no position on the settlement or partial settlement reached or on the sufficiency of the evidence filed to-date.

This settlement proposal provides a brief description of each of the settled and partially settled issues, together with references to the evidence filed to-date. The supporting parties for each settled or partially settled issue agree that the evidence filed to-date in respect of that settled or partially settled issue, as supplemented in some instances by

additional information recorded in this settlement proposal, is sufficient in the context of the overall settlement to support the proposed settlement or partial settlement. There are Appendices to this settlement proposal which provide further support for the proposed settlement.

Pursuant to Procedural Order #4, the Board determined that the \$30 million energy storage project proposed by THESL could not be settled, but would go to a hearing. Contemporaneously with this Settlement Agreement, THESL has written to the Board withdrawing its application for approval of that project. In entering into this Agreement, the parties have assumed that the withdrawal of the energy storage project is accepted by the Board. All calculations of OM&A, capital, rate base, revenue requirement, and other such amounts are based on that assumption.

According to the *Guidelines* (p. 3), the parties must consider whether a settlement proposal should include an appropriate adjustment mechanism for any settled issue that may be affected by external factors. The parties consider that no settled issue requires a specific adjustment mechanism. The settlement on each of the issues may, however, be subject to adjustment for the impacts of the Board's determination on the unsettled issues, as further described below.

The parties have settled the issues as a package and none of the parts of this settlement proposal is severable. If the Board does not accept this settlement proposal, in its entirety, then there is no settlement (unless the parties agree in writing that any part(s) of this settlement proposal that the Board does accept may continue as a valid settlement without inclusion of any part(s) that the Board does not accept).

It is also agreed that this Agreement is without prejudice to any of the Parties re-examining these issues in any subsequent proceeding and taking positions inconsistent with the resolution of these issues in this Agreement. However, none of the Parties will in any subsequent proceeding take the position that the resolution therein of any issue settled in this Agreement, if contrary to the terms of this Agreement, should be applicable for all or any part of the 2011 Test Year.

Summary of the Settlement

The central feature of this settlement proposal is an agreed-to decrease in THESL's proposed 2011 Base Revenue Requirement from \$578.4M, as proposed in the Application, to \$524.8M in this settlement proposal, which includes adjustments arising out of the Accounting Update, as discussed below, subject to the Board's determination of the unsettled issues. This settlement is pending updated revenue requirement and rate impacts reflecting the cost of capital parameters defined in the Board's March 3, 2011 letter for distributors that are applying for May 1st 2011 rates which will be provided on Monday, March 28, 2011. The expected impact of the adjustment is approximately \$3M reduction in revenue requirement.

This reduced Revenue Requirement corresponds to the following changes in capital and operational expenditures, which changes are more fully explained in the applicable section of this settlement agreement:

(\$ million)	Application	Settlement Proposal ⁽¹⁾	Settlement Proposal ⁽²⁾	Relevant Issue
2011 Base Revenue Requirement	\$578.4	\$551.0	\$524.8	1.4
2011 Capital Expenditures	\$498.0	\$400.0	\$378.8	4.2
2011 OM&A	\$226.8	\$216.0	\$237.8	3.1
2011 Revenue Offsets	\$19.7	\$26.0	\$26.0	2.2

Notes:

(1) These settlement amounts are calculated prior to taking into account the Accounting Update adjustments. These values are included for ease of comparison only.

(2) These settlement amounts are calculated after taking into account the Accounting Update adjustments. These values form the basis of the settlement in this proposal.

The Parties believe that the Agreement represents a balanced proposal that protects the interests of Toronto Hydro’s customers, employees and shareholder and promotes economic efficiency and cost effectiveness. It also provides the resources which will allow Toronto Hydro to manage its assets so that reasonable standards of performance and the safe, reliable delivery of electricity, at reasonable prices, are achieved.

This Agreement will allow Toronto Hydro to continue to make the necessary maintenance and operation expenditures as well as capital investments to maintain the safety and reliability of the electricity distribution service that it provides. This Agreement will also allow Toronto Hydro to maintain current capital investment levels in infrastructure to ensure a reliable distribution system; to manage current staffing levels, skills and training to ensure regulatory compliance with Codes and Regulations;; and to continue to provide the high level of customer service Toronto Hydro customers have come to expect.

The Accounting Update

On January 26, 2011, THESL filed a letter with the Board asking to adjourn settlement discussions so that THESL could file the Accounting Update.

On February 9, 2011, THESL filed the Accounting Update which, in short, relates to material changes to accounting estimates that THESL proposes to apply prospectively,

effective January 1, 2011, for financial and regulatory reporting purposes. THESL has advised in the Accounting Update that these changes in accounting estimates were determined through the work performed by THESL in preparation for its adoption of IFRS. THESL has also advised that the adoption of IFRS has been deferred until January 1, 2012; notwithstanding the deferral of the adoption of IFRS, THESL has since determined that the changes in accounting estimates determined in preparation for IFRS have triggered certain accounting changes pursuant to Canadian GAAP.

The evidence related to the Accounting Update can be found at Exhibit Q1, Tab 2 and Exhibit R2, Tab 1-5. While this Settlement Proposal includes the Revenue Requirement of this settlement both before and after the Accounting Update, all of the parties agree that this settlement is based on the Revenue Requirement calculations that incorporate the Accounting Update adjustment. Pre-Accounting Update numbers are included for convenience purposes only, to allow for comparisons to prior THESL applications which would not have included the Accounting Update adjustments.

Attached as Appendix B to this Settlement Proposal are schedules comparing Revenue Requirement as reflected in the original Application filed in August and the result of this proposed settlement, both before and after incorporating the Accounting Update adjustment. Appendix B also shows the bill impacts as a result of the proposed settlement, after incorporating the Accounting Update adjustment. The Schedules include revised OM&A and capital budgets reflecting this settlement proposal, and proposed rates and bill impacts on the basis of the settled revenue requirement. The parties agree that the Schedules were prepared by THESL, based on calculations and data that have not been the subject of any external review or testing, and that those Schedules form part of and are an essential component of this settlement proposal. The Intervenor have relied on the accuracy of the Schedules in agreeing to the settlement of the issues set forth herein.

Unsettled Issues

The parties were able to settle all of the issues except for the following contested issues which are not resolved or only partially resolved as part of this settlement proposal:

1. **IRM (Issue. 1.5):** The parties did not reach agreement on Issue 1.5. The issue relates to when it would be appropriate for THESL to commence filing rate applications under incentive regulation.
2. **Emerging Requirements (Issues 4.1, 4.2, 9.1, 9.2 and 9.3):** In Procedural Order No. 4 issued January 12, 2011, the Board determined that the following three proposed expenditures included by THESL as part of its capital budget will not be eligible for settlement: (i) the energy storage project included under emerging requirements(which has today been withdrawn subject to Board approval), (ii) the electric vehicle charging infrastructure program included under smart grid as part of emerging requirements; and (iii) the fleet & equipment services expenditures under the general plant category, due to the inclusion of

vehicle purchases related to the green initiative (“**Emerging Requirements**”). These expenditures relate to Issues 4.1, 4.2, 9.1, 9.2 and 9.3 and are excluded from the proposal to settle the capital budget and the Smart Grid Plan contained herein. If any of these projects are approved, the amount included in the Application will be in addition to the agreed-upon amount of capital expenditures in the Test Year. For greater certainty, the characterization by the parties of these expenditures using the nomenclature “emerging requirements” does not imply that these expenditures, or any of them, are either new or required.

3. **Deferral and Variance Accounts (Issue 6.1).**
4. **Suite Metering (Issues 7.2 and 7.3):** In Procedural Order No. 3 issued December 13, 2010, the Board determined that Issues 7.2 and 7.3 related to THESL’s suite metering are not eligible for settlement (“**Suite Metering**”). The settlement figures are calculated on the assumption that these issues are treated as set forth in the Application, but that assumption is not an indication by any party of an expected outcome.
5. **Cost Allocation and Rate Design (Issues 7.1 and 7.4):** The parties did not reach settlement on revenue-to-cost ratios for each class.

The parties agree that failure to achieve settlement on the above-noted issues should not otherwise displace the settlement described in this settlement proposal. The parties agree that all unsettled issues will be dealt with during the oral phase of this proceeding.

1. GENERAL

1.1 Has Toronto Hydro responded appropriately to all relevant Board directions from previous proceedings?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept THESL's evidence that it has responded to all relevant Board directions from previous proceedings.

Evidence: Exhibit A1, Tab 5; Exhibit L1, Tab 3-4.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Party taking no position: PP and SSMWG

1.2 Are Toronto Hydro's economic and business planning assumptions for 2011 appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept THESL's economic and business planning assumptions for 2011 as a reasonable foundation for the settlement herein.

Evidence: Exhibit C1, Tab 4; Exhibit R1, Tab 1, Schedule 4; Exhibit R1, Tab 3, Schedule 2-4; Exhibit R1, Tab 6, Schedule 2; Exhibit R1, Tab 9, Schedule 6-7; Exhibit R1, Tab 11, Schedule 4-5, Exhibit R2, Tab 7, Schedule 6.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Party taking no position: PP and SSMWG

1.3 Is service quality, based on the OEB specified performance indicators, acceptable?

Complete Settlement: For the purpose of settlement of the issues contained herein, the intervenors accept THESL's service quality targets for the Test Year.

Evidence: Exhibit B1, Tab 13-14; Exhibit R1, Tab 1, Schedule 5-6; Exhibit R1, Tab 6, Schedule 8-11, 36-40; Exhibit R1, Tab 11, Schedule 2-3; Exhibit S1, Tab 1, Schedule 4; Exhibit S1, Tab 5, Schedule 2.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

1.4 Is the overall increase in the 2011 revenue requirement reasonable?

Complete Settlement: As part of this settlement agreement, THESL has agreed to reduce its revenue requirement to \$524.8M (after implementation of the Accounting Update adjustments), from \$578.4M originally requested in its pre-filed evidence, subject to adjustment by the Board as a result of its resolution of the unsettled issues. . All parties including THESL are satisfied that THESL can operate the utility in a safe and reliable manner based on this revenue requirement.

Evidence: Exhibit J1, Tab 1-2; Exhibit Q1, Tab 2; Exhibit R1, Tab 4, Schedule 29; Exhibit R2, Tab 1, Schedule 9.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

1.5 When would it be appropriate for Toronto Hydro to commence filing rate applications under incentive regulation? Is this application an appropriate base case for a future IRM application? If not, why not?

No Settlement: The parties did not reach agreement on this issue.

2. LOAD AND REVENUE FORECAST

2.1 Is the load forecast and methodology appropriate and have the impacts of Conservation and Demand Management initiatives been suitably reflected?

Complete Settlement: For the purpose of settlement of the issues in this proceeding, the intervenors accept the load forecast and the reflection therein of the impact of CDM initiatives.

Evidence: Exhibit K1, Tab 1-8; Exhibit R1, Tab 1, Schedule 10-13; Exhibit R1, Tab 3, Schedule 3,47-51; Exhibit R1, Tab 11, Schedule 10-14, 29; Exhibit S1, Tab 1, Schedule 5; Exhibit S1, Tab 3, Schedule 1; Exhibit S1, Tab 8, Schedule 4.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

2.2 Is the proposed amount for 2011 other revenues appropriate?

Complete Settlement: As part of this settlement agreement, THESL has agreed to increase its revenue offsets to \$26.0M, from \$19.7M originally proposed in its pre-filed evidence. THESL believes it can achieve this level based on current conditions in scrap metals markets, and other potential revenue offsets for 2011.

For the purpose of settlement of the issues in this proceeding, the intervenors accept THESL's new proposal for 2011 other revenues.

Evidence: Exhibit I1, Tab 1; Exhibit R1, Tab 1, Schedule 14-15; Exhibit R1, Tab 3, Schedule 43-45; Exhibit S1, Tab 4, Schedule 1, 15.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

3. OPERATIONS, MAINTENANCE AND ADMINISTRATION COSTS

3.1 Are the overall levels of the 2011 Operation, Maintenance and Administration budgets appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the parties agree that the OM&A component of the revenue requirement should be adjusted to \$237.8M. This is made up of two changes. First, based on the historical accounting method, THESL has agreed to reduce its OM&A budget by \$10.8 million, from \$226.8 million as set forth in the pre-filed evidence, to \$216 million. Second, based on the Accounting Update the OM&A is increased by the amount of \$21.8 million reflecting a reduced capitalization of overheads and other costs. This is offset by an equal reduction in capital expenditures for the year.

Evidence: Exhibits F1, Tab 1-7; Exhibit F2, Tab 1-11; Exhibit Q1, Tab 2; Exhibit R1, Tab 9, Schedule 15, 19; Exhibit R1, Tab 4, Schedule 17; Exhibit R1, Tab 6, Schedule 17-19; Exhibit R1, Tab 11, Schedule 16-17; Exhibit S1, Tab 1, Schedule 9; Exhibit S2, Tab 1, Schedule 1.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

3.2 Is the proposed level of 2011 Shared Services and Other O&M spending appropriate?

Complete Settlement: See Issue 3.1 above.

Evidence: Exhibit C1, Tab 2- 3; Exhibit, Q1, Tab 2; Exhibit R1, Tab 1, Schedule 38-40; Exhibit R1, Tab 6, Schedule 21; Exhibit R1, Tab 9, Schedule 27-30; Exhibit R1, Tab 11, Schedule 1, 21-22; Exhibit S1, Tab 4, Schedule 3-4.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

3.3 Are the methodologies used to allocate Shared Services and Other O&M costs to the distribution business for 2011 appropriate?

Complete Settlement: See Issue 3.1 above.

Evidence: Exhibit C1, Tab 2- 3; Exhibit, Q1, Tab 2; Exhibit R1, Tab 9, Schedule 28-30; Exhibit R1, Tab 11, Schedule 1, 21-22; Exhibit S1, Tab 4, Schedule 3-4. Exhibit S1, Tab 7, Schedule 8.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

3.4 Are the 2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate? Has Toronto Hydro demonstrated improvements in efficiency and value for dollar associated with its compensation costs?

Complete Settlement: See Issue 3.1 above.

Evidence: Exhibit C2, Tab 1; Exhibit R1, Tab 1, Schedule 41,43-50; Exhibit R1, Tab 4, Schedule 12-13; Exhibit R1, Tab 6, Schedule 23-24, 29, 34; Exhibit R1, Tab 9, Schedule 35-36; Exhibit S1, Tab 2, Schedule 1-7; Exhibit S1, Tab 5, Schedule 12-13, 16-21; Exhibit S2, Tab 1, Schedule 2, 7.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

3.5 Is Toronto Hydro's depreciation expense appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept THESL's depreciation expense, as adjusted to reflect the Accounting Update and the reduced 2011 Capital Expenditures discussed under item 4.2 below.

Evidence: Exhibit D1, Tab 12-13; Exhibit Q1, Tab 2; Exhibit R1, Tab 01, Schedule 55; Exhibit R1, Tab 3, Schedule 33.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

3.6 Are the amounts proposed for capital and property taxes appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept the proposed amounts for capital and property taxes, as adjusted to reflect the Accounting Update and this settlement.

Evidence: Exhibit H1, Tab 1; Exhibit R1, Tab 3, Schedule 42.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

3.7 Is the amount proposed for PILs, including the methodology, appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept the amount proposed for PILS, as adjusted to reflect the Accounting Update and this settlement.

Evidence: Exhibit H1, Tab 1; Exhibit Q1, Tab 2; Exhibit R1, Tab 1, Schedule 57-58; Exhibit R1, Tab 3, Schedule 42, 53, 55.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

4. CAPITAL EXPENDITURES AND RATE BASE

4.1 Are the amounts proposed for Rate Base appropriate?

Partial Settlement: For the purposes of settlement of the issues in this proceeding, the parties agree to the revised amounts proposed for Rate Base as set forth in Appendix B, subject to the Board's determination with respect to the emerging requirements which were identified in Procedural Order No. 4 as not being eligible for settlement.

Evidence: Exhibits D1, Tab 1-15; Exhibit D2, Tab 1; Exhibit R1, Tab 4, Schedule 16, 28-29; Exhibit R1, Tab 9, Schedule 46.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

4.2 Are the amounts proposed for 2011 Capital Expenditures appropriate including the specific Operational and Emerging Requirements categories?

Partial Settlement: As part of this settlement proposal, THESL agrees to reduce its 2011 capital budget from \$498M originally requested in the Application to

\$378.8M, which amount reflects the Accounting Update adjustments and excludes the Emerging Requirements which were identified in Procedural Order No. 4 as not eligible for settlement.

THESL agrees that, based on this agreed capital budget, it can continue to operate its system in a safe and reliable manner in the Test Year. All of the parties agree that the scope of this issue can therefore be reduced to:

“Are the amounts proposed for 2011 Capital Expenditures related to (i) the energy storage project included under emerging requirements, (ii) the electric vehicle charging infrastructure program included under smart grid as part of emerging requirements; and (iii) the vehicle purchases related to the green initiative under the general plant category (the “**Emerging Requirements**”) appropriate?”

Evidence: Exhibits D1, Tab 7-9; Exhibit R1, Tab 1, Schedule 18, 61-63, 66-71, 74-81; Exhibit R1, Tab 2, Schedule 21-25; Exhibit R1, Tab 3, Schedule 6-31; Exhibit R1, Tab 04, Schedule 31; Exhibit R1, Tab 6, Schedule 1; Exhibit R1, Tab 9, Schedule 46-47, 49-55; Exhibit S1, Tab 1, Schedule 13-15; Exhibit S1, Tab 3, Schedule 3; Exhibit R2, Tab 1, Schedule 11; Exhibit R2, Tab 5, Schedule 1; Exhibit S2, Tab 1, Schedule 9.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

4.3 Are the inputs used to determine the Working Capital component of the Rate Base appropriate and is the methodology used appropriate?

Complete Settlement: . See Issue 4.1 above.

Evidence: Exhibit D1, Tab 14; Exhibit R1, Tab 1, Schedule 79; Exhibit S1, Tab 7, Schedule 20.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

4.4 Does Toronto Hydro’s Asset Condition Assessment information and Investment Planning Process adequately address the condition of the distribution system assets and support the O&MA and Capital expenditures for 2011?

Complete Settlement: The parties agree that THESL’s Asset Condition Assessment and Investment Planning Process and the other evidence provided by THESL in this proceeding collectively support the net capital budget in the Test Year of \$378.7 million.

Evidence: Exhibit C1, Tab 6, Schedule 1, Exhibit D1, Tab 8, Schedule 11; Exhibit R1, Tab 1, Schedule 64; Exhibit R1, Tab 4, Schedule 25; Exhibit R1, Tab 06, Schedule 44-45; Exhibit R1, Tab 11, Schedule 32.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

5. CAPITAL STRUCTURE AND COST OF CAPITAL

5.1 Is the proposed Capital Structure, Rate of Return on Equity, and Short-Term Debt Rate appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept that THESL will use the Cost of Capital parameters defined in the Board's March 3, 2011 letter for distributors that are applying for May 1st 2011 rates.

Evidence: Exhibit E1, Tab 1-7; Exhibit R1, Tab 3, Schedule 43.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

5.2 Is the proposed Long-Term Debt Rate appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept the proposed Long-Term Debt Rate.

Evidence: Exhibit E1, Tab 4; Exhibit R1, Tab 1, Schedule 82; Exhibit R1, Tab 3, Schedule 34-35; Exhibit R1, Tab 11, Schedule 36.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

5.3 Is the proposed dollar cost of Long-Term Debt appropriate after having regard to the transaction undertaken by the holder of the \$490 million promissory notes in March 2010?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept the proposed dollar cost of Long-Term Debt.

Evidence: Exhibit E1, Tab 4; Exhibit R1, Tab 1, Schedule 82.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

6. DEFERRAL AND VARIANCE ACCOUNTS

6.1 Is the proposal for the amounts, disposition and continuance of Toronto Hydro's existing Deferral and Variance Accounts appropriate?

No Settlement: The parties were not able to reach agreement on this issue.

Evidence: Exhibit J1, Tab 1-2; Exhibit R1, Tab 1, Schedule 83-89; Exhibit R1, Tab 11, Schedule 1.

7. COST ALLOCATION AND RATE DESIGN

7.1 Is Toronto Hydro's cost allocation appropriate?

Partial Settlement. For the purposes of settlement of the issues in this proceeding, the parties agree to the cost allocation proposed by Toronto Hydro, with one exception: the Intervenor do not agree with the methodology used by Toronto Hydro to account for the transformer allowance. It is agreed that the transformer allowance methodology should be determined after an oral hearing on that issue.

Evidence: Exhibit L1, Tab 1-4; Exhibit R1, Tab 1, Schedule 90-92; Exhibit R1, Tab 11, Schedule 38-39.

7.2 Is Toronto Hydro's suite metering cost allocation appropriate?

No Settlement: Pursuant to Procedural Order No. 3, this issue was not eligible for settlement.

7.3 Is it appropriate for Toronto Hydro to establish a separate rate class for multi-unit residential customers that are served directly by Toronto Hydro through its suite metering provision?

No Settlement: Pursuant to Procedural Order No. 3, this issue was not eligible for settlement.

7.4 Are the proposed revenue to cost ratios for each class appropriate?

No Settlement: The parties were not able to agree on this issue.

Evidence: Exhibit M1, Tab 1-5; Exhibit R1, Tab 1, Schedule 92; Exhibit R1, Tab 4, Schedule 38; Exhibit R1, Tab 9, Schedule 61; Exhibit R1, Tab 11, Schedule 38.

7.5 Are the fixed-variable splits for each class appropriate?

Complete Settlement: For the purpose of settlement of the issues in this proceeding, THESL agrees to maintain the fixed monthly charge for each of Residential and GS<50 classes at the 2010 levels, and with that change the intervenors accept the fixed-variable splits for each class as filed.

Evidence: Exhibit M1, Tab 1; Exhibit R1, Tab 2, Schedule 27; Exhibit R2, Tab 1, Schedule 10; Exhibit R1, Tab 8, Schedule 4-5, 7; Exhibit S1, Tab 2, Schedule 8.

7.6 Are the proposed Retail Transmission Service rates appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept the proposed Retail Transmission Service rates. All parties agree that they will be updated at rate finalization for the recently announced (EB-2010-0002) Uniform Electricity Transmission Rates.

Evidence: Exhibit N1, Tab 2; Exhibit S1, Tab 3, Schedule 12.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

7.7 Are the proposed Total Loss Factors appropriate?

Complete Settlement. Subject to the resolution of issue 6.1 as it relates to variances in line losses, for the purposes of settlement of the issues in this proceeding, the intervenors accept the Total Loss Factors as proposed by Toronto Hydro.

Evidence: Exhibit M1, Tab 5; Exhibit R1, Tab 8, Schedule 2, 6; Exhibit S1, Tab 7, Schedule 24.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

8. SMART METERS

8.1 Is Toronto Hydro's proposal to include its 2011 smart meter costs in rate base as a regular distribution activity appropriate?

- a) **Complete Settlement:** For the purposes of settlement of the issues in this proceeding, the intervenors accept the proposal to include THESL's smart meter costs in rate base as a regular distribution activity, starting in 2011. The smart meter costs forecast for inclusion in 2011 include \$12.6M capital and \$2.4M OM&A.

Evidence: Exhibit D1, Tab 8, Schedule 7; Exhibit R1, Tab 01, Schedule 93;; Exhibit R1, Tab 11, Schedule 43.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

8.2 Are the proposed 2011 smart metering costs appropriate?

Complete Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept the proposed 2011 smart metering costs.

Evidence: Exhibit D1, Tab 8, Schedule 7; Exhibit R1, Tab 01, Schedule 93; Exhibit R1, Tab 4, Schedule 40; Exhibit R1, Tab 11, Schedule 43; Exhibit S1, Tab 01, Schedule 23; Exhibit S1, Tab 7, Schedule 23.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

9. SMART GRID PLAN

9.1 Does Toronto Hydro's Smart Grid Plan meet the Board's filing guidelines and the objectives set out in the *Green Energy and Green Economy Act, 2009*?

Partial Settlement: See Issue 9.2 below. The parties agree that it is not necessary to approve the Smart Grid Plan in this application.

Evidence: Exhibit G1, Tab 1-2; Exhibit R1, Tab 11, Schedule 45, 47.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

9.2 Has Toronto Hydro appropriately addressed the Smart Grid Plan expenditures in the context of its overall Capital and O&M budgets?

Partial Settlement: For the purposes of settlement of the issues in this proceeding, the intervenors accept Toronto Hydro's 2011 Smart Grid Plan expenditures in the context of the settlement Capital and O&M budgets, except in respect of the electric vehicle charging infrastructure program which the Board identified in Procedural Order No. 4 as not eligible for settlement.

Evidence: Exhibit G1, Tab 1-2; Exhibit R1, Tab 1, Schedule 95-96; Exhibit R1, Tab 4, Schedule 43; Exhibit R1, Tab 5, Schedule 1; Exhibit R1, Tab 1, Schedule 14; Exhibit S1, Tab 7, Schedule 19.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

9.3 Is Toronto Hydro's approach to allocating Smart Grid Plan O&M and Capital costs to its distribution customers appropriate?

Partial Settlement. Subject to any allocation issues that arise in the context of the electric vehicle charging infrastructure, which the Board will consider under issue 4.2, for the purposes of settlement of the issues in this proceeding, the intervenors accept Toronto Hydro's proposals for the allocation of Smart Grid Plan O&M and Capital costs.

Evidence: Exhibit G1, Tab 1-2; Exhibit L1, Tab 1-4.

Supporting parties: THESL, AMPCO, BOMA, CCC, Energy Probe, SEC, and VECC.

Parties taking no position: PP and SSMWG

APPENDIX “A”

Approved Final Issues List

1. GENERAL

- 1.1 Has Toronto Hydro responded appropriately to all relevant Board directions from previous proceedings?
- 1.2 Are Toronto Hydro's economic and business planning assumptions for 2011 appropriate?
- 1.3 Is service quality, based on the OEB specified performance indicators, acceptable?
- 1.4 Is the overall increase in the 2011 revenue requirement reasonable?
- 1.5 When would it be appropriate for Toronto Hydro to commence filing rate applications under incentive regulation? Is this application an appropriate base case for a future IRM application? If not, why not?

2. LOAD and REVENUE FORECAST

- 2.1 Is the load forecast and methodology appropriate and have the impacts of Conservation and Demand Management initiatives been suitably reflected?
- 2.2 Is the proposed amount for 2011 other revenues appropriate?

3. OPERATIONS, MAINTENANCE and ADMINISTRATION COSTS

- 3.1 Are the overall levels of the 2011 Operation, Maintenance and Administration budgets appropriate?
- 3.2 Is the proposed level of 2011 Shared Services and Other O&M spending appropriate?
- 3.3 Are the methodologies used to allocate Shared Services and Other O&M costs to the distribution business for 2011 appropriate?
- 3.4 Are the 2011 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate?
- Has Toronto Hydro demonstrated improvements in efficiency and value for dollar associated with its compensation costs?
- 3.5 Is Toronto Hydro's depreciation expense appropriate?
- 3.6 Are the amounts proposed for capital and property taxes appropriate?
- 3.7 Is the amount proposed for PILs, including the methodology, appropriate?

4. CAPITAL EXPENDITURES and RATE BASE

- 4.1 Are the amounts proposed for Rate Base appropriate?
- 4.2 Are the amounts proposed for 2011 Capital Expenditures appropriate including the specific Operational and Emerging Requirements categories?
- 4.3 Are the inputs used to determine the Working Capital component of the Rate Base appropriate and is the methodology used appropriate?

4.4 Does Toronto Hydro's Asset Condition Assessment information and Investment Planning Process adequately address the condition of the distribution system assets and support the O&MA and Capital expenditures for 2011?

5. CAPITAL STRUCTURE AND COST OF CAPITAL

5.1 Is the proposed Capital Structure, Rate of Return on Equity, and Short-Term Debt Rate appropriate?

5.2 Is the proposed Long-Term Debt Rate appropriate?

5.3 Is the proposed dollar cost of Long-Term Debt appropriate after having regard to the transaction undertaken by the holder of the \$490 million promissory notes in March 2010?

6. DEFERRAL and VARIANCE ACCOUNTS

6.1 Is the proposal for the amounts, disposition and continuance of Toronto Hydro's existing Deferral and Variance Accounts appropriate?

7. COST ALLOCATION and RATE DESIGN

7.1 Is Toronto Hydro's cost allocation appropriate?

7.2 Is Toronto Hydro's suite metering cost allocation appropriate?

7.3 Is it appropriate for Toronto Hydro to establish a separate rate class for multi-unit residential customers that are served directly by Toronto Hydro through its suite metering provision?

7.4 Are the proposed revenue to cost ratios for each class appropriate?

7.5 Are the fixed-variable splits for each class appropriate?

7.6 Are the proposed Retail Transmission Service rates appropriate?

7.7 Are the proposed Total Loss Factors appropriate?

8. SMART METERS

8.1 Is Toronto Hydro's proposal to include its 2011 smart meter costs in rate base as a regular distribution activity appropriate?

8.2 Are the proposed 2011 smart metering costs appropriate?

9. SMART GRID PLAN

9.1 Does Toronto Hydro's Smart Grid Plan meet the Board's filing guidelines and the objectives set out in the Green Energy and Green Economy Act, 2009?

9.2 Has Toronto Hydro appropriately addressed the Smart Grid Plan expenditures in the context of its overall Capital and O&M budgets?

9.3 Is Toronto Hydro's approach to allocating Smart Grid Plan O&M and Capital costs to its distribution customers appropriate?

APPENDIX “B”

Revenue Requirements and Bill Impacts

Table 1 - Revenue Requirement Summary (\$ millions)

(Variances due to rounding may exist)

	<i>Historic Accounting Approach</i>	<i>Historic Accounting Approach</i>	<i>Updated Accounting Approach</i>
	2011 EDR Application (Aug 23, 2010)	Proposed Settlement (Mar 4, 2011)	Proposed Settlement (Mar 4, 2011)
Base Revenue Requirement	\$578.4	\$551.0	\$524.8
Revenue Offsets	\$19.7	\$26.0	\$26.0
Service Revenue Requirement	\$598.1	\$577.0	\$550.8
OM&A Expenses	\$226.8	\$216.0	\$237.8
Depreciation Expense	\$178.3	\$174.3	\$138.8
Income Tax Expense	\$28.1	\$26.0	\$12.6
Cost of Capital	\$164.9	\$160.7	\$161.6
Capital Expenditures	\$498.0	\$400.0	\$378.8

Note: These figures do not include the Cost of Capital update.

Table 2 - Bill Impacts Summary - % Change from 2010 Rates

Class	Consumption/ Demand	2011 Application (Aug 23, 2010)			Proposed Settlement (with accounting Update and reflecting THESL's proposed Cost Allocation, which is an issue on which no settlement has been reached)		
		Distribution	Distribution + Rate Riders	Total Bill	Distribution	Distribution + Rate Riders	Total Bill
Residential	800 kWh	15.1%	18.0%	4.6%	3.6%	6.0%	1.2%
General Service < 50 kW	2000 kWh	13.1%	16.2%	2.9%	2.3%	4.9%	0.1%
General Service 50-999 kW	150,000 kWh / 388 kVA	6.2%	4.8%	1.3%	-2.4%	-3.6%	0.2%
General Service 1000-4999 kW	800,000 kWh / 1778 kVA	7.1%	4.9%	-0.4%	0.6%	-2.3%	-1.0%
Large Use	4,500,000 kWh / 9,434 kVA	9.5%	6.7%	0.1%	1.7%	-1.9%	-0.6%
Street Lighting	9,182,083 kWh / 25,506 kVA	24.2%	38.5%	18.5%	8.0%	22.1%	10.3%
USL	365 kWh	19.6%	23.6%	10.1%	4.6%	8.4%	3.1%

Note: These figures do not include the Cost of Capital update.

Glen Winn
14 Carlton St
Toronto, Ontario M5B 1K5

Telephone: 416-542-2517
Facsimile: 416-542-3024
regulatoryaffairs@torontohydro.com



March 28, 2011

via RESS e-filing – original to follow by courier

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

Dear Ms. Walli:

**RE: Toronto Hydro-Electric System Limited (THESL)
2011 EDR Application – Settlement Proposal
OEB File No. EB-2010-0142**

In accordance with the terms of the Settlement Proposal agreed to by the parties on March 25, 2011, enclosed are Appendices C and D to the Settlement Proposal, which contain updated Rate Impact Tables and the Revenue Requirement Work Form, respectively. The tables in these Appendices reflect the updated cost of capital parameters as defined in the Board's March 3, 2011 letter.

Yours truly,

[original signed by Jack Lenartowicz]

Glen A. Winn
Manager, Regulatory Applications & Compliance
regulatoryaffairs@torontohydro.com

encl.

:GAW/JL/acc

cc: Registered Intervenors in EB-2010-0142
J. Mark Rodger, Counsel to THESL

Appendix "C" - Rate Impacts
 (reflecting updated cost of capital parameters)

Table 1: Summary Table - Monthly Bill Impacts - Percentage Change from 2010 Rates

Class	Consumption/Demand	Prefiled			Proposed Settlement		
		Distribution	Distribution + Rate Riders	Total Bill	Distribution	Distribution + Rate Riders	Total Bill
Residential	800 kWh	15.1%	18.0%	4.6%	2.9%	5.3%	1.0%
General Service < 50 kW	2000 kWh	13.1%	16.2%	2.9%	1.8%	4.3%	0.0%
General Service 50-999 kW	150,000 kWh / 388 kVA	6.2%	4.8%	1.3%	-2.9%	-4.2%	0.1%
General Service 1000-4999 kW	800,000 kWh / 1778 kVA	7.1%	4.9%	-0.4%	0.1%	-2.8%	-1.1%
Large Use	4,500,000 kWh / 9,434 kVA	9.5%	6.7%	0.1%	1.3%	-2.3%	-0.6%
Street Lighting	9,182,083 kWh / 25,506 kVA	24.2%	38.5%	18.5%	7.4%	21.4%	9.9%
Unmetered Scattered Loads	365 kWh	19.6%	23.6%	10.1%	3.9%	7.7%	2.8%

Notes:

1) Proposed settlement impacts include the accounting update, 2011 Cost of Capital parameters, and reflect THESL's proposed cost allocation, which is an issue on which no settlement has been reached.

Table 2: Residential

RESIDENTIAL - 800 kWh	Current			Proposed			Impact	
	Volume	Rate \$	Charge \$	Volume	Rate \$	Charge \$	Change \$	Change %
Service Charge (per 30 days)	1	18.25	18.25	1	18.25	18.25	-	0.0%
Distribution	800	0.01572	12.58	800	0.01685	13.48	0.90	7.2%
Smart Meter Rider (per 30 days)	1	0.68000	0.68	1	0.68000	0.68	-	0.0%
SSM Rider	800	0.00006	0.05	-	-	-	(0.05)	-100.0%
LRAM Rider	800	0.00044	0.35	-	-	-	(0.35)	-100.0%
Regulatory Assets - Deferral/Variance	800	(0.00189)	(1.51)	800	(0.00189)	(1.51)	-	0.0%
Regulatory Assets - Global Adjustment - RPP	-	-	-	-	-	-	-	0.0%
Regulatory Assets - 2011 Rate Rider				800	0.00089	0.71	0.71	0.0%
Contact Voltage		-	-	1	0.41	0.41	0.41	0.0%
Sub Total A - Distribution			30.39			32.02	1.63	5.3%
RTST - Network	830.08	0.00663	5.50	830.08	0.00648	5.38	(0.12)	-2.3%
RTSR - Connection	830.08	0.00535	4.44	830.08	0.00487	4.04	(0.40)	-9.0%
Sub Total B (including Sub-Total A) - Distribution			40.34			41.44	1.10	2.7%
Wholesale Market Rate	830.08	0.00520	4.32	830.08	0.00520	4.32	-	0.0%
RRRP	830.08	0.00130	1.08	830.08	0.00130	1.08	-	0.0%
DRC	800	0.00700	5.60	800	0.00700	5.60	-	0.0%
Standard Supply Service Charge	1	0.25	0.25	1	0.25	0.25	-	0.0%
SPC	830.08	0.00037	0.31	830.08	0.00037	0.31	-	0.0%
Cost of Power Commodity - 1st Tier (May 1st 2010)	600.00	0.06500	39.00	600.00	0.06500	39.00	-	0.0%
Cost of Power Commodity - 2nd Tier (May 1st 2010)	230.08	0.07500	17.26	230.08	0.07500	17.26	-	0.0%
Total Bill (including Sub-Total B)			108.15			109.25	1.10	1.0%

kWh

Consumption Details	800
Total Loss Factor	1.0376

Table 3: General Service < 50 kWh

GS < 50 kWh with 2,000 kWh	Current			Proposed			Impact	
	Volume	Rate \$	Charge \$	Volume	Rate \$	Charge \$	Change \$	Change %
Service Charge (per 30 days)	1	24.30	24.30	1	24.30	24.30	-	0.0%
Distribution	2,000.00	0.02270	45.40	2,000.00	0.02331	46.62	1.22	2.7%
Smart Meter Rider (per 30 days)	1	0.68000	0.68	1	0.68000	0.68	-	0.0%
SSM Rider	2,000.00	0.00003	0.06	-	-	-	(0.06)	-100.0%
LRAM Rider	2,000.00	0.00009	0.18	-	-	-	(0.18)	-100.0%
Regulatory Assets - Deferral/Variance	2,000.00	(0.00179)	(3.58)	2,000.00	(0.00179)	(3.58)	-	0.0%
Regulatory Assets - Global Adjustment - RPP	-	-	-	-	-	-	-	0.0%
Regulatory Assets - 2011 Rate Rider				2,000.00	0.00075	1.50	1.50	n/a
Contact Voltage		-	-	1	0.42	0.42	0.42	n/a
Sub Total A - Distribution			67.04			69.94	2.90	4.3%
RTST - Network	2,075.20	0.00664	13.78	2,075.20	0.00627	13.01	(0.77)	-5.6%
RTSR - Connection	2,075.20	0.00546	11.33	2,075.20	0.00440	9.13	(2.20)	-19.4%
Sub Total B (including Sub-Total A) - Distribution			92.15			92.08	(0.07)	-0.1%
Wholesale Market Rate	2,075.20	0.00520	10.79	2,075.20	0.00520	10.79	-	0.0%
RRRP	2,075.20	0.00130	2.70	2,075.20	0.00130	2.70	-	0.0%
DRC	2,000.00	0.00700	14.00	2,000.00	0.00700	14.00	-	0.0%
Standard Supply Service Charge	1.00	0.25	0.25	1.00	0.25	0.25	-	0.0%
Special Purpose Charge	2,075.20	0.00037	0.77	2,075.20	0.00037	0.77	-	0.0%
Cost of Power Commodity - 1st Tier (May 1st 2010)	750.00	0.06500	48.75	750.00	0.06500	48.75	-	0.0%
Cost of Power Commodity - 2nd Tier (May 1st 2010)	1,325.20	0.07500	99.39	1,325.20	0.07500	99.39	-	0.0%
Total Bill (including Sub-Total B)			268.80			268.73	(0.07)	0.0%

kWh

Consumption Details	2,000.00
Total Loss Factor	1.0376

Table 4: General Service > 50 kWh < 1000 kWh

GS > 50 < 1000	Current			Proposed			Impact	
	Volume	Rate \$	Charge \$	Volume	Rate \$	Charge \$	Change \$	Change %
Service Charge (per 30 days)	1	35.49	35.49	1	34.45	34.45	(1.04)	-2.9%
Distribution	388.00	5.58400	2,166.59	388.00	5.4204	2,103.12	(63.48)	-2.9%
Smart Meter Rider (per 30 days)	1	0.68	0.68	1	0.68	0.68	-	0.0%
SSM Rider	388.00	0.00730	2.83	-	-	-	(2.83)	-100.0%
LRAM Rider	388.00	0.01140	4.42	-	-	-	(4.42)	-100.0%
Regulatory Assets - Deferral/Variance	388.00	(0.61190)	(237.42)	388.00	(0.61190)	(237.42)	-	0.0%
Regulatory Assets - Global Adjustment - Non RPP	150,000.00	0.00053	79.50	150,000.00	0.00053	79.50	-	0.0%
Regulatory Assets - 2011 Rate Rider				388.00	(0.03860)	(14.98)	(14.98)	n/a
Contact Voltage		-	-	1	0.09000	0.09	0.09	n/a
Sub Total A - Distribution			2,052.10			1,965.44	(86.66)	-4.2%
RTST - Network	349.00	2.10170	733.49	349.00	2.24600	783.85	50.36	6.9%
RTSR - Connection	349.00	1.51630	529.19	349.00	1.67470	584.47	55.28	10.4%
Sub Total B (including Sub-Total A) - Distribution			3,314.78			3,333.77	18.98	0.6%
Wholesale Market Rate	155,640.00	0.0052	809.33	155,640.00	0.0052	809.33	-	0.0%
RRRP	155,640.00	0.0013	202.33	155,640.00	0.0013	202.33	-	0.0%
DRC	150,000.00	0.0070	1,050.00	150,000.00	0.0070	1,050.00	-	0.0%
Standard Supply Service Charge	1.00	0.25	0.25	1.00	0.25	0.25	-	0.0%
Special Purpose Charge	155,640.00	0.00037	57.98	155,640.00	0.00037	57.98	-	0.0%
Cost of Power Commodity - 1st Tier (May 1st 2010)	750.00	0.06500	48.75	750.00	0.06500	48.75	-	0.0%
Cost of Power Commodity - 2nd Tier (May 1st 2010)	154,890.00	0.07500	11,616.75	154,890.00	0.07500	11,616.75	-	0.0%
Total Bill (including Sub-Total B)			17,100.17			17,119.15	18.98	0.1%
	kWh	kW	kVA	Hours Use	PF	Net/Conn		
Consumption Details	150,000	349	388	430	90%	98%		
Total Loss Factor	1.0376							

Table 5: General Service > 1000 kWh < 5000 kWh

GS > 1000 < 5000	Current			Proposed			Impact	
	Volume	Rate \$	Charge \$	Volume	Rate \$	Charge \$	Change \$	Change %
Service Charge (per 30 days)	1	659.80	659.80	1	627.18	627.18	(32.62)	-4.9%
Distribution	1,778.00	4.04380	7,189.88	1,778.00	4.06540	7,228.28	38.40	0.5%
Smart Meter Rider (per 30 days)	1	0.68000	0.68	1	0.68000	0.68	-	0.0%
SSM Rider	1,778.00	0.00160	2.84	-	-	-	(2.84)	-100.0%
LRAM Rider	1,778.00	0.01890	33.60	-	-	-	(33.60)	-100.0%
Regulatory Assets - Deferral/Variance	1,778.00	(0.69220)	(1,230.73)	1,778.00	(0.69220)	(1,230.73)	-	0.0%
Regulatory Assets - Global Adjustment - Non RPP	800,000.00	0.00055	440.00	800,000.00	0.00055	440.00	-	0.0%
Regulatory Assets - 2011 Rate Rider				1,778.00	(0.09600)	(170.69)	(170.69)	n/a
Contact Voltage		-	-	1	0.01000	0.01000	0.01	n/a
Sub Total A - Distribution			7,096.07			6,894.73	(201.34)	-2.8%
RTST - Network	1,600.00	2.47980	3,967.68	1,600.00	2.17010	3,472.16	(495.52)	-12.5%
RTSR - Connection	1,600.00	1.82650	2,922.40	1,600.00	1.67290	2,676.64	(245.76)	-8.4%
Sub Total B (including Sub-Total A) - Distribution			13,986.15			13,043.53	(942.62)	-6.7%
Wholesale Market Rate	830,080.00	0.005200	4,316.42	830,080.00	0.00520	4,316.42	-	0.0%
RRRP	830,080.00	0.001300	1,079.10	830,080.00	0.00130	1,079.10	-	0.0%
DRC	800,000.00	0.007000	5,600.00	800,000.00	0.00700	5,600.00	-	0.0%
Standard Supply Service Charge	1.00	0.25	0.25	1.00	0.25	0.25	-	0.0%
Special Purpose Charge	830,080.00	0.00037	309.20	830,080.00	0.00037	309.20	-	0.0%
Cost of Power Commodity - 1st Tier (May 1st 2010)	750.00	0.06500	48.75	750.00	0.06500	48.75	-	0.0%
Cost of Power Commodity - 2nd Tier (May 1st 2010)	829,330.00	0.07500	62,199.75	829,330.00	0.07500	62,199.75	-	0.0%
Total Bill (including Sub-Total B)			87,539.63			86,597.01	(942.62)	-1.1%
	kWh	kW	kVA	Hours Use	PF	Net/Conn		
Consumption Details	800,000	1,600	1,778	500	90%	98%		
Total Loss Factor	1.0376							

Table 6: Large Users

Large Users	Current			Proposed			Impact	
	Volume	Rate \$	Charge \$	Volume	Rate \$	Charge \$	Change \$	Change %
Service Charge (per 30 days)	1	2,874.02	2,874.02	1	2,766.12	2,766.12	(107.90)	-3.8%
Distribution	9,434	4.28520	40,426.58	9,434	4.35780	41,111.49	684.91	1.7%
Smart Meter Rider (per 30 days)	1	0.68	0.68	1	0.68	0.68	-	0.0%
SSM Rider	9,434	0.00130	12.26	-	-	-	(12.26)	-100.0%
LRAM Rider	9,434	0.02410	227.36	-	-	-	(227.36)	-100.0%
Regulatory Assets - Deferral/Variance	9,434	(0.74770)	(7,053.80)	9,434	(0.74770)	(7,053.80)	-	0.0%
Regulatory Assets - Global Adjustment - Non RPP	4,500,000	0.00053	2,385.00	4,500,000	0.00053	2,385.00	-	0.0%
Regulatory Assets - 2011 Rate Rider				9,434	(0.13250)	(1,250.01)	(1,250.01)	n/a
Contact Voltage		-	-	-	-	-	-	n/a
Sub Total A - Distribution			38,872.10			37,959.48	(912.62)	-2.3%
RTST - Network	8,491	2.63790	22,398.41	8,491	2.47380	21,005.04	(1,393.37)	-6.2%
RTSR - Connection	8,491	1.94160	16,486.13	8,491	1.85860	15,781.37	(704.75)	-4.3%
Sub Total B (including Sub-Total A) - Distribution			77,756.63			74,745.89	(3,010.75)	-3.9%
Wholesale Market Rate	4,584,150	0.0052	23,837.58	4,584,150	0.0052	23,837.58	-	0.0%
RRRP	4,584,150	0.0013	5,959.40	4,584,150	0.0013	5,959.40	-	0.0%
DRC	4,500,000	0.0070	31,500.00	4,500,000	0.0070	31,500.00	-	0.0%
Standard Supply Service Charge	1	0.25	0.25	1	0.25	0.25	-	0.0%
Special Purpose Charge	4,584,150.00	0.00037	1,707.60	4584150.00	0.00037	1,707.60	-	0.0%
Cost of Power Commodity - 1st Tier (May 1st 2010)	750	0.06500	48.75	750	0.06500	48.75	-	0.0%
Cost of Power Commodity - 2nd Tier (May 1st 2010)	4,583,400	0.07500	343,755.00	4,583,400	0.07500	343,755.00	-	0.0%
Total Bill (including Sub-Total B)			484,565.20			481,554.46	(3,010.75)	-0.6%
	kWh	kW	kVA	Hours Use	PF	Net/Conn		
Consumption Details	4,500,000	8,491	9,434	530	90%	98%		
Total Loss Factor	1.0187							

Table 7: Street Lighting

Street Lighting	C urrent			Proposed			Impact	
	Volume	Rate \$	Charge \$	Volume	Rate \$	Charge \$	Change \$	Change %
Connection Charge	162,353.42	1.32	214,306.51	162,353.42	1.42	230,541.85	16,235.34	7.6%
Distribution	25,506.00	29.2169	745,206.25	25,506.00	31.3491	799,590.14	54,383.89	7.3%
Smart Meter Rider (per 30 days)	-	-	-	-	-	-	-	0.0%
Regulatory Assets - Deferral/Variance	25,506.00	(0.74990)	(19,126.95)	25,506.00	(0.74990)	(19,126.95)	-	0.0%
Regulatory Assets - Global Adjustment - RPP	-	-	-	-	-	-	-	0.0%
Regulatory Assets - 2011 Rate Rider	-	-	-	25,506.00	0.14550	3,711.12	3,711.12	n/a
Contact Voltage	-	-	-	162,353.42	0.78000	126,635.66	126,635.66	n/a
Sub Total A - Distribution			940,385.81			1,141,351.83	200,966.02	21.4%
RTST - Network	25,506.00	2.48600	63,407.92	25,506.00	1.99760	50,950.79	(12,457.13)	-19.6%
RTSR - Connection	25,506.00	2.04010	52,034.79	25,506.00	1.99680	50,930.38	(1,104.41)	-2.1%
Sub Total B (including Sub-Total A) - Distribution			1,055,828.52			1,243,233.00	187,404.48	17.7%
Wholesale Market Rate	9,527,257.47	0.00520	49,541.74	9,527,257.47	0.00520	49,541.74	-	0.0%
RRRP	9,527,257.47	0.00130	12,385.43	9,527,257.47	0.00130	12,385.43	-	0.0%
DRC	9,182,013.75	0.00700	64,274.10	9,182,013.75	0.00700	64,274.10	-	0.0%
Standard Supply Service Charge	1.00	0.25	0.25	1.00	0.25000	0.25	-	0.0%
Special Purpose Charge	9,527,257.47	0.00037	3,548.90	9,527,257.47	0.00037	3,548.90	-	0.0%
Cost of Power Commodity - 1st Tier (May 1st 2010)	750.00	0.06500	48.75	750.00	0.06500	48.75	-	0.0%
Cost of Power Commodity - 2nd Tier (May 1st 2010)	9,352,967.41	0.07500	701,472.56	9,352,967.41	0.07500	701,472.56	-	0.0%
Total Bill (including Sub-Total B)			1,887,100.25			2,074,504.73	187,404.48	9.9%
	kWh	Connections	kW	KVA	Hours Use	PF	Net/Conn	
Consumption Details	9,182,013.75	162,353	25,506	25,506.00	360	100%	100%	
Total Loss Factor	1.0376							

Table 8: Unmetered Scattered Load

USL	Current			Proposed			Impact	
	Volume	Rate \$	Charge \$	Volume	Rate \$	Charge \$	Change \$	Change %
Service Charge (per 30 days)	1	4.92	4.92	1	5.06	5.06	0.14	2.8%
Connection Charge	1	0.50	0.50	1	0.51	0.51	0.01	2.0%
Distribution	365.00	0.06090	22.23	365.00	0.06346	23.16	0.93	4.2%
SSM Rider	365.00	-	-	-	-	-	-	0.0%
LRAM Rider	365.00	0.00098	0.36	-	-	-	(0.36)	-100.0%
Regulatory Assets - Deferral/Variance	365.00	(0.00197)	(0.72)	365.00	(0.00197)	(0.72)	-	0.0%
Regulatory Assets - Global Adjustment - RPP	-	-	-	-	-	-	-	0.0%
Regulatory Assets - 2011 Rate Rider				365.00	0.00025	0.09	0.09	n/a
Contact Voltage		-	-	1	1.29000	1.29	1.29	n/a
Sub Total A - Distribution			27.29			29.40	2.11	7.7%
RTST - Network	378.72	0.00461	1.75	378.72	0.00394	1.49	(0.25)	-14.5%
RTSR - Connection	378.72	0.00354	1.34	378.72	0.00308	1.17	(0.17)	-13.0%
Sub Total B (including Sub-Total A) - Distribution			30.37			32.05	1.68	5.5%
Wholesale Market Rate	378.72	0.00520	1.97	378.72	0.00520	1.97	-	0.0%
RRRP	378.72	0.00130	0.49	378.72	0.00130	0.49	-	0.0%
DRC	365.00	0.00700	2.56	365	0.00700	2.56	-	0.0%
Standard Supply Service Charge	1	0.25	0.25	1	0.25000	0.25	-	0.0%
Special Purpose Charge	378.72	0.00037	0.14	378.72	0.00037	0.14	-	0.0%
Cost of Power Commodity - 1st Tier (May 1st 2010)	365.00	0.06500	23.73	365.00	0.06500	23.73	-	0.0%
Cost of Power Commodity - 2nd Tier (May 1st 2010)	-	0.07500	-	-	0.07500	-	-	0.0%
Total Bill (including Sub-Total B)			59.51			61.19	1.68	2.8%

Kwh Customer Connection

Consumption Details	365	1	1
Total Loss Factor	1.0376		



REVENUE REQUIREMENT WORK FORM

Name of LDC: (1)
 File Number:
 Rate Year: Version: 2.11

Table of Content

<u>Sheet</u>	<u>Name</u>
A	<u>Data Input Sheet</u>
1	<u>Rate Base</u>
2	<u>Utility Income</u>
3	<u>Taxes/PILS</u>
4	<u>Capitalization/Cost of Capital</u>
5	<u>Revenue Sufficiency/Deficiency</u>
6	<u>Revenue Requirement</u>
7A	<u>Bill Impacts -Residential</u>
7B	<u>Bill Impacts - GS < 50 kW</u>

Notes:

- (1) Pale green cells represent inputs
- (2) Pale yellow cells represent drop-down lists
- (3) **Please note that this model uses MACROS. Before starting, please ensure that macros have been enabled.**
- (4) **Completed versions of the Revenue Requirement Work Form are required to be filed in working Microsoft Excel format.**

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REVENUE REQUIREMENT WORK FORM

Name of LDC: Toronto Hydro-Electric System Limited
 File Number: EB-2010-0142
 Rate Year: 2011

Version: 2.11

		Data Input					(1)
		Initial Application	Adjustments	Settlement Agreement	(7) Adjustments	Per Board Decision	
1	Rate Base						
	Gross Fixed Assets (average)	\$4,404,200,772	(\$46,167,599)	\$4,358,033,172		\$4,358,033,172	
	Accumulated Depreciation (average)	(\$2,376,268,969)	(5) \$19,723,763	-\$2,356,545,206		(\$2,356,545,206)	
	Allowance for Working Capital:						
	Controllable Expenses	\$226,817,269	\$10,999,337	\$ 237,816,606		\$237,816,606	
	Cost of Power	\$2,242,116,161	(\$180,000)	\$2,241,936,161		\$2,241,936,161	
	Working Capital Rate (%)	12.90%		11.97%		11.97%	
2	Utility Income						
	Operating Revenues:						
	Distribution Revenue at Current Rates	\$518,135,903	\$0	\$518,135,903			
	Distribution Revenue at Proposed Rates	\$578,428,862	(\$56,587,577)	\$521,841,285			
	Other Revenue:						
	Specific Service Charges	\$7,580,526	\$0	\$7,580,526			
	Late Payment Charges	\$4,900,000	\$0	\$4,900,000			
	Other Distribution Revenue	\$7,240,556	\$0	\$7,240,556			
	Other Income and Deductions	\$16,382	\$6,283,618	\$6,300,000			
	Operating Expenses:						
	OM+A Expenses	\$220,014,886	\$10,999,338	\$ 231,014,224		\$231,014,224	
	Depreciation/Amortization	\$178,263,303	(\$39,447,522)	\$ 138,815,781		\$138,815,781	
	Property taxes	\$6,802,382	\$ -	\$ 6,802,382		\$6,802,382	
	Capital taxes						
	Other expenses						
3	Taxes/PILs						
	Taxable Income:						
	Adjustments required to arrive at taxable income	(\$17,273,077)	(3)	(\$54,417,922)			
	Utility Income Taxes and Rates:						
	Income taxes (not grossed up)	\$20,189,870		\$8,459,584			
	Income taxes (grossed up)	\$28,139,192		\$11,790,361			
	Capital Taxes		(6)		(6)		(6)
	Federal tax (%)	16.50%		16.50%			
	Provincial tax (%)	11.75%		11.75%			
	Income Tax Credits	(\$1,046,240)		(\$1,046,240)			
4	Capitalization/Cost of Capital						
	Capital Structure:						
	Long-term debt Capitalization Ratio (%)	56.0%		56.0%	(2)		(2)
	Short-term debt Capitalization Ratio (%)	4.0%	(2)	4.0%	(2)		(2)
	Common Equity Capitalization Ratio (%)	40.0%		40.0%			
	Preferred Shares Capitalization Ratio (%)						
		100.0%		100.0%			
	Cost of Capital						
	Long-term debt Cost Rate (%)	5.37%		5.37%			
	Short-term debt Cost Rate (%)	2.07%		2.46%			
	Common Equity Cost Rate (%)	9.85%		9.58%			
	Preferred Shares Cost Rate (%)						

Notes:

(Rate Base through Revenue Requirement), except for Notes that the utility may wish to use to support the data. Notes should be put on the applicable pages to explain numbers shown.

- (1) All inputs are in dollars (\$) except where inputs are individually identified as percentages (%)
- (2) 4.0% unless an Applicant has proposed or been approved for another amount.
- (3) Net of addbacks and deductions to arrive at taxable income.
- (4) Average of Gross Fixed Assets at beginning and end of the Test Year
- (5) Average of Accumulated Depreciation at the beginning and end of the Test Year. Enter as a negative amount.
- (6) Not applicable as of July 1, 2010
- (7) Select option from drop-down list by clicking on cell M10. This column allows for the application update reflecting the end of discovery or Argument-in-Chief. Also, the outcome of any Settlement Process can be reflected.



REVENUE REQUIREMENT WORK FORM

Name of LDC: Toronto Hydro-Electric System Limited
 File Number: EB-2010-0142
 Rate Year: 2011

Version: 2.11

Rate Base						
Line No.	Particulars	Initial Application	Adjustments	Settlement Agreement	Adjustments	Per Board Decision
1	Gross Fixed Assets (average) (3)	\$4,404,200,772	(\$46,167,599)	\$4,358,033,172	\$ -	\$4,358,033,172
2	Accumulated Depreciation (average) (3)	(\$2,376,268,969)	\$19,723,763	(\$2,356,545,206)	\$ -	(\$2,356,545,206)
3	Net Fixed Assets (average) (3)	\$2,027,931,803	(\$26,443,836)	\$2,001,487,967	\$ -	\$2,001,487,967
4	Allowance for Working Capital (1)	\$318,391,990	(\$21,684,337)	\$296,707,652	\$ -	\$296,707,652
5	Total Rate Base	\$2,346,323,793	(\$48,128,174)	\$2,298,195,619	\$ -	\$2,298,195,619
(1) Allowance for Working Capital - Derivation						
6	Controllable Expenses	\$226,817,269	\$10,999,337	\$237,816,606	\$ -	\$237,816,606
7	Cost of Power	\$2,242,116,161	(\$180,000)	\$2,241,936,161	\$ -	\$2,241,936,161
8	Working Capital Base	\$2,468,933,430	\$10,819,337	\$2,479,752,766	\$ -	\$2,479,752,766
9	Working Capital Rate % (2)	12.90%	-0.93% a	11.97%	0.00%	11.97%
10	Working Capital Allowance	\$318,391,990	(\$21,684,337)	\$296,707,652	\$ -	\$296,707,652

Notes

- (2) Generally 15%. Some distributors may have a unique rate due as a result of a lead-lag study.
 (3) Average of opening and closing balances for the year.



REVENUE REQUIREMENT WORK FORM

Name of LDC: Toronto Hydro-Electric System Limited
 File Number: EB-2010-0142
 Rate Year: 2011

Version: 2.11

Utility income						
Line No.	Particulars	Initial Application	Adjustments	Settlement Agreement	Adjustments	Per Board Decision
Operating Revenues:						
1	Distribution Revenue (at Proposed Rates)	\$578,428,862	(\$56,587,577)	\$521,841,285	\$ -	\$521,841,285
2	Other Revenue (1)	\$19,737,464	(\$45,758,546)	\$26,021,082	\$ -	\$26,021,082
3	Total Operating Revenues	\$598,166,326	(\$102,346,123)	\$547,862,367	\$ -	\$547,862,367
Operating Expenses:						
4	OM+A Expenses	\$220,014,886	\$10,999,338	\$231,014,224	\$ -	\$231,014,224
5	Depreciation/Amortization	\$178,263,303	(\$39,447,522)	\$138,815,781	\$ -	\$138,815,781
6	Property taxes	\$6,802,382	\$ -	\$6,802,382	\$ -	\$6,802,382
7	Capital taxes	\$ -	\$ -	\$ -	\$ -	\$ -
8	Other expense	\$ -	\$ -	\$ -	\$ -	\$ -
9	Subtotal (lines 4 to 8)	\$405,080,571	(\$28,448,184)	\$376,632,387	\$ -	\$376,632,387
10	Deemed Interest Expense	\$72,501,405	(\$1,128,642)	\$71,372,763	(\$358,519)	\$71,014,245
11	Total Expenses (lines 9 to 10)	\$477,581,977	(\$29,576,827)	\$448,005,150	(\$358,519)	\$447,646,632
12	Utility income before income taxes	\$120,584,349	(\$72,769,296)	\$99,857,217	\$358,519	\$100,215,735
13	Income taxes (grossed-up)	\$28,139,192	(\$16,348,831)	\$11,790,361	\$ -	\$11,790,361
14	Utility net income	\$92,445,157	(\$56,420,465)	\$88,066,856	\$358,519	\$88,425,375

Notes

(1)	Other Revenues / Revenue Offsets					
	Specific Service Charges	\$7,580,526	\$ -	\$7,580,526		\$7,580,526
	Late Payment Charges	\$4,900,000	\$ -	\$4,900,000		\$4,900,000
	Other Distribution Revenue	\$7,240,556	\$ -	\$7,240,556		\$7,240,556
	Other Income and Deductions	\$16,382	\$6,283,618	\$6,300,000		\$6,300,000
	Total Revenue Offsets	\$19,737,464	\$6,283,618	\$26,021,082	\$ -	\$26,021,082



REVENUE REQUIREMENT WORK FORM

Version: 2.11

Name of LDC: Toronto Hydro-Electric System Limited
 File Number: EB-2010-0142
 Rate Year: 2011

Taxes/PILs

Line No.	Particulars	Application	Settlement Agreement	Per Board Decision
<u>Determination of Taxable Income</u>				
1	Utility net income before taxes	\$92,445,157	\$88,066,856	\$90,548,907
2	Adjustments required to arrive at taxable utility income	(\$17,273,077)	(\$54,417,922)	(\$17,273,077)
3	Taxable income	<u>\$75,172,080</u>	<u>\$33,648,934</u>	<u>\$73,275,830</u>
<u>Calculation of Utility income Taxes</u>				
4	Income taxes	\$20,189,870	\$8,459,584	\$8,459,584
5	Capital taxes	\$ - (1)	\$ - (1)	\$ - (1)
6	Total taxes	<u>\$20,189,870</u>	<u>\$8,459,584</u>	<u>\$8,459,584</u>
7	Gross-up of Income Taxes	<u>\$7,949,322</u>	<u>\$3,330,777</u>	<u>\$3,330,777</u>
8	Grossed-up Income Taxes	<u>\$28,139,192</u>	<u>\$11,790,361</u>	<u>\$11,790,361</u>
9	PILs / tax Allowance (Grossed-up Income taxes + Capital taxes)	<u>\$28,139,192</u>	<u>\$11,790,361</u>	<u>\$11,790,361</u>
10	Other tax Credits	(\$1,046,240)	(\$1,046,240)	(\$1,046,240)
<u>Tax Rates</u>				
11	Federal tax (%)	16.50%	16.50%	16.50%
12	Provincial tax (%)	<u>11.75%</u>	<u>11.75%</u>	<u>11.75%</u>
13	Total tax rate (%)	<u>28.25%</u>	<u>28.25%</u>	<u>28.25%</u>

Notes

(1) Capital Taxes not applicable after July 1, 2010 (i.e. for 2011 and later test years)



REVENUE REQUIREMENT WORK FORM

Version: 2.11

Name of LDC: Toronto Hydro-Electric System Limited
 File Number: EB-2010-0142
 Rate Year: 2011

Capitalization/Cost of Capital

Line No.	Particulars	Capitalization Ratio	Cost Rate	Return	
Initial Application					
		(%)	(\$)	(%)	(\$)
Debt					
1	Long-term Debt	56.00%	\$1,313,941,324	5.37%	\$70,558,649
2	Short-term Debt	4.00%	\$93,852,952	2.07%	\$1,942,756
3	Total Debt	60.00%	\$1,407,794,276	5.15%	\$72,501,405
Equity					
4	Common Equity	40.00%	\$938,529,517	9.85%	\$92,445,157
5	Preferred Shares	0.00%	\$ -	0.00%	\$ -
6	Total Equity	40.00%	\$938,529,517	9.85%	\$92,445,157
7	Total	100.00%	\$2,346,323,793	7.03%	\$164,946,563
Settlement Agreement					
		(%)	(\$)	(%)	(\$)
Debt					
1	Long-term Debt	56.00%	\$1,286,989,547	5.37%	\$69,111,339
2	Short-term Debt	4.00%	\$91,927,825	2.46%	\$2,261,424
3	Total Debt	60.00%	\$1,378,917,371	5.18%	\$71,372,763
Equity					
4	Common Equity	40.00%	\$919,278,248	9.58%	\$88,066,856
5	Preferred Shares	0.00%	\$ -	0.00%	\$ -
6	Total Equity	40.00%	\$919,278,248	9.58%	\$88,066,856
7	Total	100.00%	\$2,298,195,619	6.94%	\$159,439,619
Per Board Decision					
		(%)	(\$)	(%)	(\$)
Debt					
8	Long-term Debt	56.00%	\$1,286,989,547	5.37%	\$69,111,339
9	Short-term Debt	4.00%	\$91,927,825	2.07%	\$1,902,906
10	Total Debt	60.00%	\$1,378,917,371	5.15%	\$71,014,245
Equity					
11	Common Equity	40.00%	\$919,278,248	9.85%	\$90,548,907
12	Preferred Shares	0.00%	\$ -	0.00%	\$ -
13	Total Equity	40.00%	\$919,278,248	9.85%	\$90,548,907
14	Total	100.00%	\$2,298,195,619	7.03%	\$161,563,152

Notes

(1) 4.0% unless an Applicant has proposed or been approved for another amount.



REVENUE REQUIREMENT WORK FORM

Version: 2.11

Name of LDC: Toronto Hydro-Electric System Limited
 File Number: EB-2010-0142
 Rate Year: 2011

Revenue Sufficiency/Deficiency

Line No.	Particulars	Initial Application		Settlement Agreement		Per Board Decision	
		At Current Approved Rates	At Proposed Rates	At Current Approved Rates	At Proposed Rates	At Current Approved Rates	At Proposed Rates
1	Revenue Deficiency from Below		\$60,292,963		\$3,705,382		\$6,806,168
2	Distribution Revenue	\$518,135,903	\$518,135,899	\$518,135,903	\$518,135,903	\$518,135,903	\$515,035,117
3	Other Operating Revenue Offsets - net	\$19,737,464	\$19,737,464	\$26,021,082	\$26,021,082	\$26,021,082	\$26,021,082
4	Total Revenue	\$537,873,367	\$598,166,326	\$544,156,985	\$547,862,367	\$544,156,985	\$547,862,367
5	Operating Expenses	\$405,080,571	\$405,080,571	\$376,632,387	\$376,632,387	\$376,632,387	\$376,632,387
6	Deemed Interest Expense	\$72,501,405	\$72,501,405	\$71,372,763	\$71,372,763	\$71,014,245	\$71,014,245
	Total Cost and Expenses	\$477,581,977	\$477,581,977	\$448,005,150	\$448,005,150	\$447,646,632	\$447,646,632
7	Utility Income Before Income Taxes	\$60,291,390	\$120,584,349	\$96,151,835	\$99,857,217	\$96,510,353	\$100,215,735
8	Tax Adjustments to Accounting Income per 2009 PILs	(\$17,273,077)	(\$17,273,077)	(\$54,417,922)	(\$54,417,922)	(\$54,417,922)	(\$54,417,922)
9	Taxable Income	\$43,018,313	\$103,311,272	\$41,733,913	\$45,439,295	\$42,092,431	\$45,797,813
10	Income Tax Rate	28.25%	28.25%	28.25%	28.25%	28.25%	28.25%
11	Income Tax on Taxable Income	\$12,152,674	\$29,185,434	\$11,789,830	\$12,836,601	\$11,891,112	\$12,937,882
12	Income Tax Credits	(\$1,046,240)	(\$1,046,240)	(\$1,046,240)	(\$1,046,240)	(\$1,046,240)	(\$1,046,240)
13	Utility Net Income	\$49,184,957	\$92,445,157	\$85,408,244	\$88,066,856	\$85,665,481	\$88,425,375
14	Utility Rate Base	\$2,346,323,793	\$2,346,323,793	\$2,298,195,619	\$2,298,195,619	\$2,298,195,619	\$2,298,195,619
	Deemed Equity Portion of Rate Base	\$938,529,517	\$938,529,517	\$919,278,248	\$919,278,248	\$919,278,248	\$919,278,248
15	Income/Equity Rate Base (%)	5.24%	9.85%	9.29%	9.58%	9.32%	9.62%
16	Target Return - Equity on Rate Base	9.85%	9.85%	9.58%	9.58%	9.85%	9.85%
17	Sufficiency/Deficiency in Return on Equity	-4.61%	0.00%	-0.29%	0.00%	-0.53%	-0.23%
18	Indicated Rate of Return	5.19%	7.03%	6.82%	6.94%	6.82%	6.94%
19	Requested Rate of Return on Rate Base	7.03%	7.03%	6.94%	6.94%	7.03%	7.03%
20	Sufficiency/Deficiency in Rate of Return	-1.84%	0.00%	-0.12%	0.00%	-0.21%	-0.09%
21	Target Return on Equity	\$92,445,157	\$92,445,157	\$88,066,856	\$88,066,856	\$90,548,907	\$90,548,907
22	Revenue Deficiency/(Sufficiency)	\$43,260,201	(\$0)	\$2,658,612	\$0	\$4,883,426	(\$2,123,533)
23	Gross Revenue Deficiency/(Sufficiency)	\$60,292,963 (1)		\$3,705,382 (1)		\$6,806,168 (1)	

Notes:

(1) Revenue Sufficiency/Deficiency divided by (1 - Tax Rate)



REVENUE REQUIREMENT WORK FORM

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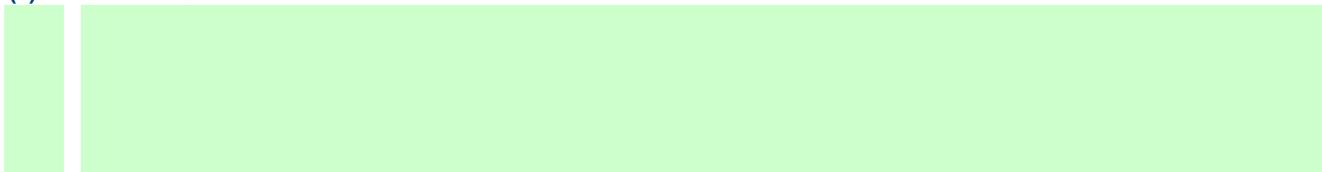
Name of LDC: Toronto Hydro-Electric System Limited
 File Number: EB-2010-0142
 Rate Year: 2011

Revenue Requirement

Line No.	Particulars	Application	Settlement Agreement	Per Board Decision
1	OM&A Expenses	\$220,014,886	\$231,014,224	\$231,014,224
2	Amortization/Depreciation	\$178,263,303	\$138,815,781	\$138,815,781
3	Property Taxes	\$6,802,382	\$6,802,382	\$6,802,382
4	Capital Taxes	\$ -	\$ -	\$ -
5	Income Taxes (Grossed up)	\$28,139,192	\$11,790,361	\$11,790,361
6	Other Expenses	\$ -		
7	Return			
	Deemed Interest Expense	\$72,501,405	\$71,372,763	\$71,014,245
	Return on Deemed Equity	\$92,445,157	\$88,066,856	\$90,548,907
8	Distribution Revenue Requirement before Revenues	\$598,166,326	\$547,862,367	\$549,985,900
9	Distribution revenue	\$578,428,862	\$521,841,285	\$521,841,285
10	Other revenue	\$19,737,464	\$26,021,082	\$26,021,082
11	Total revenue	\$598,166,326	\$547,862,367	\$547,862,367
12	Difference (Total Revenue Less Distribution Revenue Requirement before Revenues)	(\$0)	\$0	(\$2,123,533)

Notes

(1) Line 11 - Line 8





REVENUE REQUIREMENT WORK FORM

Name of LDC: Toronto Hydro-Electric System Limited
 File Number: EB-2010-0142
 Rate Year: 2011

Version: 2.11

Residential

Consumption **800** kWh

	Charge Unit	Current Board-Approved			Proposed			Impact		
		Rate (\$)	Volume	Charge (\$)	Rate (\$)	Volume	Charge (\$)	\$ Change	% Change	
1	Monthly Service Charge	monthly	\$ 18.2500	1	\$ 18.25	\$ 18.2500	1	\$ 18.25	\$ -	0.00%
2	Smart Meter Rate Adder	monthly	\$ 0.6800	1	\$ 0.68	\$ 0.6800	1	\$ 0.68	\$ -	0.00%
3	Service Charge Rate Adder(s)			1	\$ -		1	\$ -	\$ -	
4	Service Charge Rate Rider(s)			1	\$ -		1	\$ -	\$ -	
5	Distribution Volumetric Rate	per kWh	\$ 0.0157	800	\$ 12.58	\$ 0.0169	800	\$ 13.48	\$ 0.90	7.19%
6	Low Voltage Rate Adder			800	\$ -		800	\$ -	\$ -	
7	Volumetric Rate Adder(s)			800	\$ -		800	\$ -	\$ -	
8	Volumetric Rate Rider(s)			800	\$ -		800	\$ -	\$ -	
9	Smart Meter Disposition Rider			800	\$ -		800	\$ -	\$ -	
10	LRAM & SSM Rate Rider	per kWh	\$ 0.0005	800	\$ 0.40	\$ -	800	\$ -	\$ 0.40	-100.00%
11	Deferral/Variance Account Disposition Rate Rider	per kWh	\$ 0.0019	800	\$ 1.51	\$ 0.0019	800	\$ 1.51	\$ -	0.00%
12	Regulatory Assets - Global Adjustment - RPP		\$ -		\$ -		0	\$ -	\$ -	
13	Regulatory Assets - 2011 Rate Rider	monthly	\$ -		\$ -	\$ 0.0009	800	\$ 0.71	\$ 0.71	
14		monthly			\$ -	\$ 0.4100	1	\$ 0.41	\$ 0.41	
15					\$ -			\$ -	\$ -	
16	Sub-Total A - Distribution				\$ 30.39			\$ 32.02	\$ 1.63	5.35%
17	RTSR - Network	per kWh	\$ 0.0066	830.08	\$ 5.50	\$ 0.0065	830.08	\$ 5.38	\$ 0.12	-2.26%
18	RTSR - Line and Transformation Connection	per kWh	\$ 0.0054	830.08	\$ 4.44	\$ 0.0049	830.08	\$ 4.04	\$ 0.40	-8.97%
19	Sub-Total B - Delivery (including Sub-Total A)				\$ 40.34			\$ 41.44	\$ 1.10	2.73%
20	Wholesale Market Service Charge (WMSC)	per kWh	\$ 0.0052	830.08	\$ 4.32	\$ 0.0052	830.08	\$ 4.32	\$ -	0.00%
21	Rural and Remote Rate Protection (RRRP)	per kWh	\$ 0.0013	830.08	\$ 1.08	\$ 0.0013	830.08	\$ 1.08	\$ -	0.00%
22	Special Purpose Charge	per kWh	\$ 0.0003725	830.08	\$ 0.31	\$ 0.0003725	830.08	\$ 0.31	\$ -	0.00%
23	Standard Supply Service Charge	monthly	\$ 0.2500	1	\$ 0.25	\$ 0.2500	1	\$ 0.25	\$ -	0.00%
24	Debt Retirement Charge (DRC) Energy	per kWh	\$ 0.0070	830.08	\$ 5.81	\$ 0.0070	830.08	\$ 5.81	\$ -	0.00%
25				830.08	\$ -		830.08	\$ -	\$ -	
26		per kWh	\$ 0.0650	600	\$ 39.00	\$ 0.0650	600	\$ 39.00	\$ -	0.00%
27		per kWh	\$ 0.0750	230.08	\$ 17.26	\$ 0.0750	230.08	\$ 17.26	\$ -	0.00%
28	Total Bill (before Taxes)				\$ 108.36			\$ 109.46	\$ 1.10	1.02%
29	HST		13%		\$ 14.09	13%		\$ 14.23	\$ 0.14	1.02%
30	Total Bill (including Sub-total B)				\$ 122.45			\$ 123.69	\$ 1.24	1.01%
31	Loss Factor (%)	Note 1			3.76%			3.76%		

Notes:

Note 1: Enter existing and proposed total loss factor (Secondary Metered Customer < 5,000 kW) as a percentage.

Please note that there are no system losses on kWh for the DRC charges.



REVENUE REQUIREMENT WORK FORM

Version: 2.11

Name of LDC: Toronto Hydro-Electric System Limited
 File Number: EB-2010-0142
 Rate Year: 2011

General Service < 50 kW

Consumption kWh

	Charge Unit	Current Board-Approved			Proposed			Impact		
		Rate (\$)	Volume	Charge (\$)	Rate (\$)	Volume	Charge (\$)	\$ Change	% Change	
1	Monthly Service Charge	monthly	\$ 24.3000	1	\$ 24.30	\$ 24.3000	1	\$ 24.30	\$ -	0.00%
2	Smart Meter Rate Adder	monthly	\$ 0.6800	1	\$ 0.68	\$ 0.6800	1	\$ 0.68	\$ -	0.00%
3	Service Charge Rate Adder(s)			1	\$ -		1	\$ -	\$ -	
4	Service Charge Rate Rider(s)			1	\$ -		1	\$ -	\$ -	
5	Distribution Volumetric Rate	per kWh	\$ 0.0227	2000	\$ 45.40	\$ 0.0233	2000	\$ 46.62	\$ 1.22	2.69%
6	Low Voltage Rate Adder			2000	\$ -		2000	\$ -	\$ -	
7	Volumetric Rate Adder(s)			2000	\$ -		2000	\$ -	\$ -	
8	Volumetric Rate Rider(s)			2000	\$ -		2000	\$ -	\$ -	
9	Smart Meter Disposition Rider			2000	\$ -		2000	\$ -	\$ -	
10	LRAM & SSM Rider	per kWh	\$ 0.0001	2000	\$ 0.24	\$ -	2000	\$ -	\$ -0.24	-100.00%
11	Deferral/Variance Account Disposition Rate Rider	per kWh	-\$ 0.0018	2000	-\$ 3.58	-\$ 0.0018	2000	-\$ 3.58	\$ -	0.00%
12	Regulatory Assets - Global Adjustment - RPP	monthly	\$ -		\$ -		\$ -	\$ -	\$ -	
13	Regulatory Assets - 2011 Rate Rider	per kWh	\$ -		\$ -		2000	\$ 1.50	\$ 1.50	
14		monthly			\$ -		1	\$ 0.42	\$ 0.42	
15					\$ -			\$ -	\$ -	
16	Sub-Total A - Distribution				\$ 67.04			\$ 69.94	\$ 2.90	4.33%
17	RTSR - Network	per kW	\$ 0.0066	2075.2	\$ 13.78	\$ 0.0063	2075.2	\$ 13.01	-\$ 0.77	-5.57%
18	RTSR - Line and Transformation Connection	per kW	\$ 0.0055	2075.2	\$ 11.33	\$ 0.0044	2075.2	\$ 9.13	-\$ 2.20	-19.41%
19	Sub-Total B - Delivery (including Sub-Total A)				\$ 92.15			\$ 92.08	-\$ 0.07	-0.07%
20	Wholesale Market Service Charge (WMSC)	per kWh	\$ 0.0052	2075.2	\$ 10.79	\$ 0.0052	2075.2	\$ 10.79	\$ -	0.00%
21	Rural and Remote Rate Protection (RRRP)	per kWh	\$ 0.0013	2075.2	\$ 2.70	\$ 0.0013	2075.2	\$ 2.70	\$ -	0.00%
22	Special Purpose Charge	per kWh	\$ 0.0003725	2075.2	\$ 0.77	\$ 0.0003725	2075.2	\$ 0.77	\$ -	0.00%
23	Standard Supply Service Charge	monthly	\$ 0.2500	1	\$ 0.25	\$ 0.2500	1	\$ 0.25	\$ -	0.00%
24	Debt Retirement Charge (DRC) Energy	per kWh	\$ 0.0070	2075.2	\$ 14.53	\$ 0.0070	2075.2	\$ 14.53	\$ -	0.00%
25				2075.2	\$ -		2075.2	\$ -	\$ -	
26		monthly	\$ 0.0650	750	\$ 48.75	\$ 0.0650	750	\$ 48.75	\$ -	0.00%
27		per kWh	\$ 0.0750	1325.2	\$ 99.39	\$ 0.0750	1325.2	\$ 99.39	\$ -	0.00%
28	Total Bill (before Taxes)				\$ 269.33			\$ 269.26	-\$ 0.07	-0.03%
29	HST		13%		\$ 35.01	13%		\$ 35.00	-\$ 0.01	-0.03%
30	Total Bill (including Sub-total B)				\$ 304.34			\$ 304.26	-\$ 0.08	-0.03%
31	Loss Factor	Note 1		<input type="text" value="3.76%"/>		<input type="text" value="3.76%"/>				

Notes:

Note 1: See Note 1 from Sheet 1A. Bill Impacts - Residential

Please note that there are no system losses on kWh for DRC Charges.