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PUBLIC INTEREST ADVOCACY CENTRE

LE CENTRE POUR LA DEFENSE DE L'INTERET PUBLIC

ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7

November 13, 2009

VIA E-MAIL AND COURIER

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

Dear Ms. Walli

Re: EB-2009-0139 Toronto Hydro Electric System Limited 2010 Rates
Interrogatories of Vulnerable Energy Consumers Coalition (VECC)

Please find enclosed interrogatories to THESL on the above application.

Yours truly,

Original signed

Michael Buonaguro
Counsel for VECC
Encl.

EB-2009-0139

Toronto Hydro-Electric System Limited
2010 Rates Application
Interrogatories of the Vulnerable Energy Consumers Coalition (VECC)

System Reliability

VECC Question #1

Reference: Exhibit B1 Tab 14 Schedule1

a) Please provide a Schedule with THESL's actual reliability indices for the period 2006 to 2008 (SAIDI, SAIFI and CAIDI, with and without LoS and MEDs.)
b) Provide an analysis and assessment of trends in reliability
c) Indicate which parts of the system has the worst reliability, by providing the 2006-2008 relevant SAIDI and CI indices for Transformers, underground and overhead. Discuss the result.

Shared Services

VECC Question #2
References: Exhibits C1Tab 2Schedule 1 Page 1 and C1Tab 2 Schedule 2Page 1

Preamble

"THESL takes the view that the substance of any shared services study that it might now perform has been so reduced that it would no longer be of any significant value to the Board, stakeholders, or THESL, and that any costs so undertaken would be arguably imprudent."

a) Provide a copy of the Board's reply to Mr. Couillard's June 15, 2009 Letter
b) Provide a comparison of the size of THESLs 2009 and 2010 Shared Services Budget compared to other regulated utilities including Hydro One.
c) How many OEB regulated distributors have a formal shared services cost allocation model. Provide a list and estimated size of shared services budget.

VECC Question #3

References: Exhibit C1Tab 3 Schedule 1Page 1 and Appendix A and Appendix B

a) Given the change in governance at THC/THESL provide an estimate of the reduction in The Governance Responsibility Centre cost paid by THESL to THC for 2010
b) In Appendix A clarify whether the 2008 Historical column is the Board Approved or the 2008 Historical Actual
c) If the latter provide the Board-Approved 2008 and provide a variance explanation

d) In Appendix B Clarify whether the 2008 Historical is the Board Approved or the 2008 Historical Actual
e) If the latter provide the Board-Approved 2008 and provide a variance explanation
f) Provide more details of positions/functions and related costs repatriated from THC to THESL in 2009/ 2010. Ensure the costs add/reconcile to the difference between 2009 Bridge and 2010 costs

VECC Question #4

Reference: Exhibit C1Tab 3Schedule 2-1 and 2-2 SLAs

a) Provide details of the transfer pricing schedule and formula (as referenced in Paragraph 5-"Transfer Price" or "Transfer Prices"), for services purchased from THC and services sold to THC and THESI (except for Schedule 9 of the SLA for THESI) Reconcile the cost to those in Exhibit C1Tab 3Schedule 1 Appendix A and Appendix B.
b) Confirm that the pricing for FES, Facilities and IT&S is based on the internal cost allocation model as discussed at Exhibit C1Tab 4Schedule 3Page 1 of 3.
c) Provide the 2008 and 2010 amounts embedded in the services sold to THC and THESI respectively.
d) Using the 2008 Board-approved SLA as a base, compare and provide an explanation of the changes (>$\pm$ 10%) in service level and costs of services sold to THESI between 2008 and 2010

VECC Question #5

Reference Exhibit C1Tab 3Schedule 3

a) Provide a Version of Schedule 3 that extracts information from the SLAs to add two cost columns “2008 Board Approved” and “2010 Test” to each service. Add in 2008 services that are discontinued in 2010 as necessary.
b) Ensure the costs reconcile the cost to those in Exhibit C1Tab 3Schedule 1 Appendix A and Appendix B
c) Provide a variance report for all service for those costs in 2010 that are higher or lower ($\pm$ 10%) in 2010 compared to 2008 (except discontinued services).

Business Planning and 2010 Financial Projections

VECC Question #6

Reference: Exhibit C1 Tab4 -Schedule 1 Appendix B and Schedule 2 Appendix B

a) Provide the date of the Controllers Memo

b) Will THESL update the Conference Board of Canada Report (Exhibit C1 Tab4 Schedule 2 Appendix B) used as the basis of the 2010 2.3% inflation forecast.? If so when will this be filed?
c) What is the OEB inflation factor for 2010 used with the Cost of Capital projection for distributors?

Procurement and Supply Chain-External Services

VECC Question #7

References: Exhibit C2Tab 3Schedule 3 Page 9 of 11and Table 1; C2 Tab3 Schedule 1 Appendix A

a) Provide a schedule that provides the major elements of the $41.3 million increase in Civil Construction services
b) How much of this work was tendered? Provide the # tenders and Aggregate amount including the largest tender.
c) Provide the duration, name(s) and Costs of the Contract(s) for tree trimming. Explain in terms of contract labour rates ($/hour) and accomplishment (feeder km) why there was no increase in costs over 2008 in 2009 but there is a $400,000 or 13% increase in 2010?
d) Provide the list of bidders and summary of the winning bid for the new Contact Voltage Scanning service. If Sole Source, provide a copy of the Sole Source justification form F as required under Procurement Policy Sole Source Exception paragraph b) and documentation regarding the date this was approved by the Procurement Department
e) Explain in detail from the contract terms the basis of how the Scanning contractor's costs are charged- for example $ per day per truck/crew flat rate or $ /scan/km etc. Show the build up to the $4 million contract cost in 2010..

FES Costs

VECC Question #8

Reference: Exhibit C2Tab 4Schedule 2 Tables1 and 2 and Pages4-5

a) Provide the historical Bridge and 2010 fleet operating costs broken down between fuel insurance and maintenance
b) Provide details of the fleet fuel costs for 2008, 2009 and projected 2010
    i. Total Costs
    ii. Average $/litre (Liquid fuels and equivalent for gaseous fuels)
    iii. # km of travel and or hours of use
    iv. Fleet Average fuel cost per vehicle and per km
c) Explain why average fuel use and costs per vehicle would not decrease in 2010 given the change to more fuel efficient vehicles?
d) Explain the increase in Fleet Capital expenditure 2008-2010 based on the actual and projected number of

i. Retirements/replacements
ii. Increase in vehicle fleet
iii. Average cost of new/replacement vehicles

e) Provide a list of executive and staff vehicles- type and age. Indicate which are personal/dedicated and which are general fleet.

VECC Question #9

Reference: Exhibit C1, Tab 4, Schedule 3 (not present!)

Preamble FES allocates its fleet costs to the business units of THESL and to affiliates based on the cost allocation model described in Exhibit C1, Tab 4, Schedule 3

a) Provide a copy of Exhibit C1, Tab 4, Schedule 3

TOTAL COMPENSATION

VECC Question #10

Reference: Exhibit C2Tab 1Schedule 2

Preamble

"As part of THESL's new five-year Collective Agreement with CUPE effective February 1, 2009, a group incentive program was introduced for unionized employees in the critical front-line roles of Crew Leader and System Response Representative. This new Gain Sharing Program is a groundbreaking achievement, linking pay to successful delivery of specific results. The purpose of the program is to incent the right behaviours and advance the performance expectations for these employees to promote individual accountability and drive operational improvements. The new Gain Sharing Program has its own Scorecard linked to THESL's Scorecard and consists of four specific key performance indicators ("KPIs"):"

a) Provide an estimate of the number and list of Ontario utilities that have a similar gain sharing program for Unionized Employees
b) How many Employees are eligible --provide a breakdown by group
c) Provide an estimate of the annual cost of the program based on expected performance in 2009 and 2010 respectively.
d) Explain why Line 47 of Exhibit C2 Tab 1Schedule2 Appendix A appears to show for Union employees, an increase in incentive pay in 2009 relative to 2008, but a decrease in incentive pay from 2009 -2010. Reconcile this with the cost consequences from implementation of the Gain Sharing Program.
e) Provide the 2010 Scorecard for the Gain Sharing Program. Highlight any differences in the Scorecard or bonus calculation

VECC Question #11

References: Exhibit C1 Tab 1 Schedule 4; C2 Tab 1 Schedule 6

a) Provide the 2010 Executive and Management Scorecards for THC and THESL
b) Compare/ contrast the Scorecards and provide explanations for any material changes for 2010
c) Compare the Scorecard to that for the Unionized Employees Gain Sharing plan and highlight the linkages and rationale for the main differences.

VECC Question #12

Reference: Exhibit C2Tab 1Schedule 2 Page 5

a) Please justify an increase in Total Compensation of over 13 % for 2010 combined with an increase in Average compensation per employee from 123,490 to 125,650 or 1.8% when THESL customers are faced with losing their jobs or just getting by on their current compensation and businesses are closing and/or laying off employees?.
b) Why would not THESL recognize that the economic situation remains dire and postpone or modify its expansion plans for 2010?
c) Provide the rationale and details of the calculations for the increase in the % of total compensation capitalized from ~42.9% in 2008 Board Approved to ~46.6% in 2010.

VECC Question #13

References**:** Exhibits C2Tab 1Schedule 5; and C2 Tab5 Schedule1 page 5-7 and Tables 2 and 3

Preamble; Table 1 Shows 53 retirements in 2009 and 38 retirements in 2010

a) Provide an update of 2009 retirements and the impact of the variance on 2009 total compensation
b) Show the 2010 forecast breakdown of retirements by type of position and level
c) Provide a schedule of the forecast retirements by Quarter of 2010 and the associated impact on 2010 total compensation. Reconcile the estimated $ impact to the amounts shown at lines17-20 of C2Tab1 Schedule 2 Appendix A

VECC Question #14

References: Exhibits C2Tab1 Schedule 2 Appendix A and C2 Tab5 Schedule1 page 5-7 and Tables 2 and 3

Preamble: *In 2010, some 130 <u>new employees</u> will be hired into leadership, trades, technical and customer service positions, along with engaging contractors*.

a) Reconcile the Union Head count average of 1265 in 2009 and 1326 for Union employees C2Tab1 Schedule 2 Appendix A with C2 Tab5 Schedule1Tables 2 and 3
b) Provide a schedule that shows by month the hiring plan for Union Employees by level and the associated $ impact on 2010 total compensation costs. Reconcile the total compensation cost to the amounts shown at line 31 of C2Tab1 Schedule 2 Appendix A
c) Provide a schedule that shows by month the hiring plan for non-union employees by level and the associated $ impact on 2010 total compensation costs. Reconcile the total compensation cost to the amounts shown at lines 29 and 30 of C2Tab1 Schedule 2 Appendix A
d) If delays in hiring occur (as appears to be the case in 2008 and 2009) estimate the impact on total compensation of a reduction in 10FTEs for non- union employees and a reduction of 10FTEs in union employees. State clearly your timing assumptions

VECC Question #15

Reference: Exhibit C2Tab 2Schedule 2 Table 1 Facilities Capital Plan

a) Provide a schedule based on Table 1 that shows the amounts expected to close to rate base in 2010 and 2011
b) Assume that the expenditures are delayed by 6 months and revise the answer to part a) accordingly.

RATE BASE

VECC Question #16

References: Exhibit D1Tab 2Schedule 1Table 5; Exhibit D1, Tab 4, Schedule 1.

a) Provide a Schedule that shows details of the major additions to fixed assets in 2010

OM&A EXPENSES

VECC Question #17

References : Exhibits D1Tab 3 Schedule 1 Table 1; F1 Tab1 Schedule 1

a) Provide a version of Table 1 that separates Controllable O&M Expense from Amortization by inserting a line Subtotal Controllable O&M Expense
b) Insert lines showing the annual year over year Increases and % increases for both Controllable O&M Expense and Amortization

VECC Question #18
References: Exhibits D1Tab 3 Schedule 1 Table 1; F1Tab1Schedule1 Table 1

Preamble: Trends in OM&A are important to understanding efficiency gains and comparisons to similar distributors

a) With regard to benchmarking THESL's historic OM&A costs, confirm/correct the base data for 2005 and 2007 shown in the file "Comparison of Distributors (EB-2006-0268)" found on the OEB web site: http://www.oeb.gov.on.ca/OEB/_Documents/EB-2006-0268/Comparison_of_Distributors_with_2007_data.xls

2007	2006	2005
$167,979,422	$154,607,722	$ 157,441,700

b) For the historic and bridge years 2008-2009 compute the THESL OM&A cost per customer.
c) Compute the OM&A per kilowatt hour of energy distributed for the years 2005-2009.
d) Compute the year over year percentage increases and discuss trends in OM&A per customer and per Kilowatt hr of energy distributed .2005-2009
e) Compute the forecast metrics (OM&A/customer and per kwh distributed) for 2010 and discuss the changes relative to 2005-2009 and the implied trend.

VECC Question #19

References: Exhibit D1, Tab7 Schedule 1 Page 20; Exhibit D1 Tab 10, Schedule 4. Page 6

a) Reconcile explain the amount of $423.6 million shown for 2010 CAPEX with the amount of $366.6 million shown in the Ten year Capital Plan (pages 6 and 43)

VECC Question #20

References: Exhibits D1T7S1page 20 and D1T9S5page 4 Table 1

a) Provide an explanation for the differences in the 2008 Historical and 2009 Bridge year figures for plant relocations
b) If as stated, plant relocations are driven by City and TTC infrastructure development, please provide the details how cost sharing/recovery works and what the costs and recoveries are in 2009 and forecast for 2010
c) Provide details of the $27.6 million cost in 2010 in terms of major projects >$1 million including costs of asset retirement/replacement and relocation

VECC Question #21

Reference: Exhibit D1 Tab 10 Schedule 4

a) Provide details of the impact on 2010 rate base and revenue requirement of 3 and 6 months delay in the go live date for the new CIS

VECC Question #22

References: Exhibit D1, Tab 8, Schedule 8-5. and Exhibit F1Tab 7Schedule 1 Table 1

a) Provide more details of what improved customer services are being provided for an additional $1.8 million in 2010
b) How is the cost/benefit of the new customer relationship program being measured? Provide details.
c) In the Summer windstorm of 2009 customers were unable to reach THESL by phone for an extended period and the automated outage reporting system also was inaccessible for a long period. What steps has THESL taken to rectify this situation in future emergencies?

VECC Question #23

Reference: Exhibit D1 Tab 9Schedule 7

a) Provide a Schedule showing all CAPEX and OM&A costs in 2010 related to remediation as a result of the Level III contact voltage remediation emergency.
b) Provide a copy of the multi-year CV remediation program

<u>COST OF CAPITAL</u>

VECC Question #24

Reference: Exhibit E1Tab1Schedule1page 3

a) Will THESL update the forecast coupon rate for the new debt issue and/or provide this as soon as available?
b) What happens to your answer to part a) if the Coupon rate is different from forecast but the Board has not issued its Decision?
c) Provide the basis of the proposed coupon rate of 5.75%-sources of forecast etc.

VECC Question #25

References**:** Exhibit E1Tab4Schedule1and Schedule 2

a) Provide the details of the calculation supporting the Long and Medium Term debt principle amount of $1,210.9 million for 2010 in Schedule 1 and reconcile this with the amount of average monthly debt of $1,277,491,219 shown in Schedule 2
b) For Cost of Capital calculation purposes confirm that the amount in Schedule 1 ($1,210.9 million is the appropriate principle amount)
c) Show how the forecast LMT Debt average coupon rate of 5.60% was calculated.
d) Confirm that this coupon rate as well as the ST debt rate will be updated as soon as available

VECC Question #26

References: Exhibit F1Tab 1Schedule 1, Table 2; Exhibit F1Tab 1Schedule 2 Table 1
Preamble: The major increases between 2009 Bridge year and 2010 Test year can be attributed to the Contact Voltage Scan in the Maintenance Program, Time-of-Use in Customer Services and work force staffing in Operations Support.

a) How much of the increase in maintenance cost is related to the contact voltage scanning?. Provide estimates of 2010 contractor costs and THESL in-house costs
b) Provide a copy of the PSC contract and/or the basis on which THESL is being charged $4.1 million for the services
c) Exhibit F1 Tab 1Schedule 4 page 6 lists the 2010 scanning accomplishment as 630 square km. Explain why, since the scans are along streets/boulevards on the SEL system a better metric is not linear km scanned. List the basis of the contractors charges --square km or linear km or other metric per the contract.
d) Explain why the preventative maintenance costs for streetlighting asset verification(lines 18-20) be included in THESLs 2010 operating budget until the Board has made a determination that these are distribution asssets.
e) Identify and list with references, all other operating and capital items related to THESI Streetlighting assets in the 2010 budgets.
f) For the tree trimming operations budget provide the actual costs and accomplishment for 2008, 2009 and forecast 2010 based on feeder km trimmed

VECC Question #27

Reference: Exhibit F1Tab1Schedule 6 page 3

a) Provide the cost and update the 2009 estimate of Emergency costs to reflect the Summer 2009 windstorm emergency
b) Update the Chart on page 3 to reflect 2009 YTD CI

VECC Question #28

Reference: Exhibit F1Tab3Schedule 1 page 2

Preamble "Facilities Services allocates its costs to the business units based on the cost allocation model described in Exhibit C1, Tab 4, Schedule 3"

a) Provide a copy of Exhibit C1 Tab 4 Schedule 3 as it pertains to costing allocation of facility costs.
b) Show the calculation of the costing/allocation of Facilities costs for 2010. Reconcile the result to the total costs in Table 1 page 3 and also provide the amounts charged to affiliates (THC and THESI) in the years 2008-2010 and the basis of these charges based on the costing model.

VECC Question #29

References: Exhibit F1Tab7Schedule 1 page 6; Exhibit F1Tab 7Schedule 4

a) Provide the history of bad debt expense and the # of delinquent accounts 2008-2009 and the forecast for 2010
b) Indicate how many delinquent accounts were/are estimated to be put onto a arrears management program
c) How many disconnections occurred in 2008, YTD 2009 and forecast 2010

VECC Question #30

Reference: Exhibit F2Tab2Schedule1 page 1-2

a) Provide a schedule that shows the increase in 2010 in-house costs resulting from repatriation of Governance Responsibility Centre A&G functions from THC to THESL. For payroll related costs indicate the number of FTEs
b) Compare this cost to and reconcile with the reduction in affiliate charges from THC

VECC Question #31

Reference: Exhibit F2Tab3Schedule1 page 1

a) Provide the A&G amount included in the 2010 budget for the Low Income Energy Assistance Program and provide a breakdown of the amount
b) Given that LEAP has been delayed/postponed what treatment of these costs does THESL suggest as appropriate?

VECC Question #32

Reference: Exhibit F2Tab 6Schedule1 page 3

a) Please provide a breakdown of the total $1.6 million increase in the 2010 Test year versus 2008 Historical for Treasury, Rates and Regulatory Affairs

b) Which Treasury functions were performed by THC in 2008 and 2009.
c) Provide the 2008 and 2009 THC Treasury costs incurred on behalf of THESL together with THESL in house costs and give an explanation of how the 2010 treasury services and costs differ from prior years.
b) Provide a breakdown of THESL's 2010 regulatory costs and compare these to the historic Board-Approved and Bridge year estimate.

VECC Question #33

Reference: Exhibit F2Tab 6Schedule1 page 4

Preamble: With respect to customer deposits, THESL is also required to pay interest at prime less 2 percent on these amounts. In 2010, the forecast cost is $0.8 million. Customer deposits are not segregated from the other cash accounts of THESL, so to the extent that they can earn interest, the interest amounts are already refunded to customers through revenue offsets (of which interest income is a component). Therefore, the interest component is being refunded to customers twice, and not recovered by THESL. The current cost of capital mechanism makes no allowance for these costs to be funded, and the significance of the amount in the Test Year warrants its inclusion in the revenue requirement.

a) Explain why, unlike prior years, customer deposits are now a cost to THESL. In your answer consider the spread between THESL ST borrowing at Board Approved rates and the amount paid on Customer Deposits
b) Provide an estimate of the value of Customer Deposits on hand (average) in 2008,YTD 2009 and 2010 forecast.
c) Why cannot Customer Deposits not be segregated and interest paid at Board prescribed rates, thus reducing other ST borrowing (line of credit against accounts receivable or other) to prevent double charging (if that is the reason for the increased cost in 2010)?
d) What Impact has postponement of Amendments to Customer Service provisions under LEAP had? Please discuss in detail.

<u>SMART GRID</u>

VECC Question # 34

Reference: Exhibit G1Tab1Schedule 1page 1

Preamble The Board in its June 16, 2009 SG Guidelines provided for Deferral Accounts for renewable Generation Connection and Smart Grid Development Expenditures for recording incremental investments or expenses.

a) Has THESL established or is requesting a GEA Deferral Account or GEA funding adder.

b) Why should THESL recover the $9,770, 000 in capital costs and $450, 000 operating costs in 2010 rates, as opposed to recording in a Deferral account (with without GEA rate adder) Please explain whether the proposed regulatory treatment conforms to the Board's Guidelines

c) Is/will THESL seeking to allocate GEA initiatives only to its ratepayers (or otherwise- as per Reg. 330), If not please indicate the amount to be recovered under the Reg. and whether this is incremental to the costs to be recovered from THESL ratepayers

VECC Question #35

References : Exhibit G1Tab 1Schedule 1Pages 7-12 and Tables 2 and 3

Preamble: The three-year plan of the smart grid roadmap is intended to establish Toronto's Smart Community, which is a demonstration area where prioritized initiatives can be tested, processes developed, customer acceptance understood, and operating procedures created. Expected benefits will be demonstrated, measured, and used to support potential full scale deployment.

a) Explain why customer satisfaction seems to be the last phase of the Road Map Figure 1 i.e. Customers (*other than the few participating in demonstrations*) will be paying big cost increases for years but it appears that broad based customer benefits will not occur until late in the plan? Perhaps Figure 1 needs to be revised- please comment
b) Provide details of how benefits in each category will be forecast, tracked and assessed.
c) Is there a Business Case, including a Benefits Realization Plan If so provide a copy
d) How many of the projects (e.g. automatic fault recovery) are in the 10 year capital plan? Provide a list and the original time frame for these
e) Since the 3 year plan is predicated on Demonstration, are all the projects in Table 2 located in North York? If not indicate which are NY specific and which are system wide
f) Are all the projects in Table 3 based on demonstration in North York? If not indicate which are NY specific and which are system wide
g) Indicate whether THESL employees will participate as end users in demonstration projects or whether all demonstration participants will be non-employees.
h) How will participants in demonstrations be selected? Provide the screening/selection criteria and differentiate as needed for each type of project

VECC Question #36

Reference : Exhibit G1Tab 1Schedule 1 Page 11

Preamble: In its SG Guidelines issued June 16, 2009 the Board stated that if LDCs conduct or commission smart grid pilots/studies they should not duplicate efforts elsewhere in North America and should explore cost sharing partnerships

a) Provide a copy of the referenced report Connecting the Smart Grid
b) Did THESL coordinate its SG work with Hydro One or other GTA utilities? Please describe the collaboration

<u>TAXES AND PILS</u>

Exhibit H1Tab 1Schedule 1

NO QUESTIONS

<u>OTHER REVENUE</u>

<u>VECC Question #37</u>

Reference: Exhibit I1Tab1Schedule1, p. 3 - 5

a) Provide 5 years of information showing the breakdown of historic income from services, sale of scrap, and interest income.
b) Provide more support for the forecast that other income will be zero in 2010 based on economic and interest rate forecasts

<u>DEFERRAL ACCOUNTS</u>

<u>VECC QUESTION #38</u>

Reference: Exhibit J1Tab1Schedule 2 page 5 Table 2

a) Why is 36 months disposition appropriate given the size of the 2010 DRR and Rate Increase?
b) Provide a calculation of the residential rate rider for disposition over 12 months and 24 months and compare this to THESL's 36 month disposition

<u>VECC QUESTION #39</u>

Reference: Exhibit J1Tab1Schedule 2 page 6

Preamble: "The 2007 LRAM and SSM balance is the subject of a current Application in process with the Board (EB-2008-0401)".

a) Given the Board's EB-2008-0401 Decision and Order, will THESL now clear Account 1508
b) Confirm the residential rate rider for this clearance

VECC QUESTION #40

Reference: Exhibit J1Tab1Schedule 2 page 7

a) Please provide a breakdown/details of the IFRS costs in Account 1508 as of September 30,2009 and an estimate at year end 2009
b) When will THESL is seeking recovery?

VECC QUESTION #41

Reference: Exhibit J1Tab1Schedule 2 page 8 and Tables 3 and 4

Preamble: In the case of the $RSVA_{Power}$, the portion which is related to Global Adjustment, and has been collected only from customers who are non-RPP customers, is allocated based on estimates of the load to non-RPP customers in each rate class.

a) Provide a schedule that shows the basis of this allocation - the number of non-RPP customers and associated load over the period *for the Residential Class*
b) Reconcile the allocation with the percentages shown in Table 3 and the rate riders in Table 4

LOAD FORECAST

VECC Question #42

Reference: Exhibit K1/Tab 1/Schedule 1, page 1

a) Please reconcile the $540.5 M Total Distribution Revenue for 2010 reported here with the values ($547.5 M & $528.7 M) reported in Exhibit J1, Tab 1, Schedule 1, Table 1 for 2010.
b) Please explain what is meant by Note 3 to Table 1 regarding the Distribution Revenue not including the adjustment for the Transformer allowance.

c) Please provide a schedule that sets out the 2010 distribution revenues at the proposed rates by customer class. Please show both the rates and volumes for each class, where the rates: i) exclude the Smart Meter Adder, ii) exclude Hydro One Networks' LV costs and iii) reflect the discount for transformer ownership where appropriate.
d) Please provide a schedule that sets out the revenues by customer class based on 2009 approve rates and 2010 forecast billing determinants. Please show both the

rates and volumes for each class, where the rates: i) exclude the Smart Meter Adder, ii) exclude Hydro One Networks' LV costs and iii) reflect the discount for transformer ownership where appropriate. Please reconcile the results with the $476.8 value implicit in Exhibit J1, Tab 1, Schedule 1 (i.e., $495.5-18.7).

VECC Question #43

Reference: Exhibit K1/Tab 1/Schedule 1, pages 4-8

a) In its EB-2007-0680 Report (page 33) the Board directed Toronto Hydro to work with other parties to understand differences in load forecast methodologies employed.
   - Please outline what activities Toronto Hydro undertook in response to the Board's direction.
   - Is the changed load forecast methodology the result of this initiative?
b) In their 2010 Rate Applications many of the other electricity distributors in the province (e.g., Festival, Oakville, Orangeville and Burlington) have expressed concerns about the quality of their monthly customer usage data and the inappropriateness of using it to model monthly customer sales by class.
   - Is Toronto Hydro aware of these concerns?
   - What is different about Toronto Hydro's data that makes it acceptable for modelling purposes?
c) Page 6 indicates that the main drivers of load growth over time are economic conditions, while the primary driver of year over year changes is weather. The Application states that economic conditions are captured by customer, population and time trend variables. Did Toronto test any model specifications that included more direct indicators of economic conditions such as GDP? If not, why not? If yes, what were the results and why were these models rejected?
d) The customer class usage inputs used (per Exhibit K1, Tab 2, Schedule 1) are reported as purchased kWh. Please clarify if this is meant to reflect "customer purchases" or "wholesale purchases by Toronto Hydro" to supply the customers. If the latter, what loss factors were used to determine the wholesale purchases in each year and how were these loss factor calculated?

VECC Question #44

Reference: Exhibit K1/Tab 1/Schedule 1, pages 9-10

a) Page 8 notes that customer counts were forecast based on trend analysis. Using such an approach, how do the population and customer count forecasts capture economic conditions (as suggested on page 6)?
b) Please provide a schedule that sets out for each class the year over year growth rate in customer/connection count from 2002-2010.

c) Please provide Toronto's actual customer count by class for the most recent month available.
d) Please show the derivation of the 2009 and 2010 Residential class customer counts and how the increase in individually metered suites was specifically factored in.

VECC Question #45

Reference: Exhibit K1/Tab 1/Schedule 2

a) Are any of Toronto Hydro's customers registered as Market Participants with the IESO? If yes, what is their total usage over the most recent 12 months and what is their forecast usage for 2010?
b) What is the basis for Toronto Hydro's forecast 5% increase in electricity commodity costs for 2010?
c) Please provide an alternative 2010 commodity cost forecast based on forecast purchased energy for 2010 and the forecast commodity cost for 2010 as set out in the Board's most recent RPP Report (October 2009). For purposes of the forecast price please use the following calculation to determine the average commodity cost for 2010:
    - Weight the forecast HOEP price by the proportion of Toronto Hydro's sale that are for non-RPP customers
    - Weight the forecast RPP price by the proportion of Toronto Hydro's sales that are for RPP customers.

VECC Question #46

Reference: Exhibit K1/Tab 2/Schedule 2, page 3

a) The Adjusted R-squared for the Large User Model is only 62.1%, significantly lower than that for the models adopted for the other customer classes. Please outline what other specifications Toronto Hydro tested for the Large User Model and why they were rejected.

VECC Question #47

Reference: Exhibit K1/Tab 3/Schedule 1

a) Are the loads by class set out in Table 1 the forecast sales made to each customer class or the wholesale purchases made by Toronto Hydro to supply the class? If the latter, what loss factor was assumed for each class and how was it established?
b) For which years/columns are the values in Table 1 weather normalized as opposed to being actual values?

<u>VECC Question #48</u>

Reference: Exhibit K1/Tab 5/Schedule 1

a) How much of the reduction in use per Residential customer from 2007 to 2009 can Toronto Hydro attribute to its CDM programs? Please provide the supporting calculations of the CDM impact over this period per customer.

<u>REVENUE REQUIREMENT</u>

Working Capital Allowance

VECC Question #49

References: Exhibits D1 Tab14 Schedule 1 Page 1 Table 1; J1, Tab 2, Schedule 7.

a) Please provide more detail of the assumptions and details (lines 2-6) of the WCA calculations in J1 Tab2 Schedule 7
b) Have any of the main assumptions e.g. lag days changed since 2008 Board-Approved? If so provide more information on the change(s)
c) Will THESL adjust the WCA if the Board approves different amounts for the components used for the WCA? If so when will this occur?

<u>COST ALLOCATION</u>

<u>VECC Question #50</u>

References: Exhibit L1 Tab 1 Schedule 1

a) Please provide an electronic copy of Toronto's 2010 Cost Allocation model.
b) With respect to pages 4-5, please provide a schedule that sets out the transformer allowance provided to each rate class in 2010. Please also explain where and how this "cost" was included in the Cost Allocation model and/or the Rate Design process.
c) With respect to pages 4-5, the Board's Filing Guidelines (revised May 2009 – page 20) directed Applicants to:

    Revise cost allocation by (1) removing the "cost" associated with transformer ownership allowance from the revenue requirement (Worksheet I3) and (2) subtracting the "revenue" associated with the transformer ownership allowance from the approved revenue of the affected rates class(es) (worksheet I6, row 29)

    Please confirm that this is not the approach used by Toronto Hydro and re-file a version of the Cost Allocation Model that conforms with the Board's direction.

VECC Question #51

References: Exhibit L1Tab 2 Schedule 1

a) With respect to pages 24-25, please reconcile the following:
   - The total Rate Base reported here ($2,163.8 M) with that reported at Exhibit J1, Tab 2, Schedule 2, page 1 ($2,162.3 M)
   - The total Service Revenue Requirement reported here ($559.2 M) with that reported at Exhibit J1, Tab 2, Schedule 4, page 1 ($547.5 M)

b) Please provide a schedule that set outs how the Distribution Revenue by class (totalling $540.5 M) as reported in Sheet O1 was determined.

c) With respect to pages 24 and 19-22, please provide a schedule that explains what each of the expense item reported on these pages is meant to represent and how/why they were directly allocated to specific customer classes (for a total of $15.2 M).

d) Please provide the breakdown by customer class (in dollar values) of the allocation base used in the CA Model to allocation A&G costs (excluding Property Insurance and Community Safety Programs) to customer classes.

e) Please confirm that, in the OEB CA model, directly allocated OM&A costs are not included in the allocation base used to allocate A&G costs to customer classes (i.e., those costs with an “ad” Group Designation in Worksheet O4 – with the exception of Property Insurance and Community Safety Programs).

f) Please provide a revised allocation base broken down by customer class for A&G costs (excluding Property Insurance and Community Safety Programs) that includes directly allocated O&M costs.

g) With respect to pages 18-19 and 25, please provide a schedule that explains what dollars for each of the reported asset-related accounts is meant to represent and how/why they were directly allocated to specific customer classes (for a total of $24.8 M).

h) Please confirm whether, in the OEB CA model, directly allocated Fixed Assets are included in the allocation base (NFA ECC) used to allocate General Plant costs to customer classes (i.e., those costs with an “gp” Group Designation in Worksheet O4).

i) If not, please provide a revised allocation base for broken down by customer class for General Plant costs that includes directly allocated assets.

j) Please provide a revised 2010 Cost Allocation run where directly allocated O&M expenses and Assets are included in the allocation base for A&G costs and General Plant items respectively.

RATE DESIGN

VECC Question #52

References: Exhibit M1/Tab 1/Schedule 1, pages 4-5

a) Why is Toronto proposing to increase the revenue to cost ratio for the Residential class when it is already above the lower end of the Board's recommended range given that the Board concluded in its EB-2007-0667 Report that there are "factors that currently limit or otherwise affect the ability or desirability of moving immediately to a cost allocation framework that might, from a theoretical perspective, be considered ideal (page 2) and that "a range approach is preferred" (page 4)?
b) Has Toronto made any improvements or changes to the Cost Allocation model used for 2010 (as opposed to that used for the 2007 filing) to address the data and methodology concerns noted by the Board in its EB-2007-0667 Report (pages 5-6)?

VECC Question #53

References: Exhibit M1/Tab 1/Schedule 1, pages 5-6

a) Please confirm that the Board's EB-2007-0667 Guideline (page 12) sets the upper limit for the MSC at 120% of avoided costs plus the allocated customer costs (i.e., Minimum System plus PLCC Adjustment).
b) Given that the OEB has not completed its Rate Design review, why is it appropriate, for those classes whose values are currently within the Board's recommended range, to increase the Monthly Fixed Charges towards the value derived including the Minimum System as opposed to maintaining the current fixed-variable split for the class.
c) Please reconcile Toronto Hydro's approach regarding the Fixed Monthly charge with that proposed for the Transformer Allowance (page 7), where it is proposed to maintain the status quo until the completion of the OEB's Rate Design review.
d) Please provide a schedule that sets out the derivation of the current fixed-variable split for each customer class based on 2009 approved rates and 2010 billing determinants.
e) Please provide a schedule that sets out the month service charge for each class for 2010 consistent with the current fixed-variable split (per part (d)).

VECC Question #54

References: Exhibit M1/Tab 1/Schedule 1, page 9

a) Please provide a revised version of Table 4 based on the loss factors calculations set out in Exhibit M1, Tab 5, Schedule 1.

VECC Question #55

References: Exhibit M1/Tab 3/Schedule 1

a) With respect to the referenced schedule, please explain what is meant by "Adjusted for DOS" and why the revenues aren't simply equal to the rates times the billing quantities.
b) Please reconcile the 2009 total revenues ($471.6 M) with the Base Distribution revenues for 2010 (at approved 2009 rates) implicit in Exhibit J1, Tab 1, Schedule 1, Tables 1 & 2 ($476.8 M = $495.5 – $18.7).

VECC Question #56

References: Exhibit N1/Tab 2/Schedule 2

a) Please provide a schedule that sets out the RTSR revenues by class for each of Networks and Connection based on 2009 approved rates and 2010 volumes.
b) Please comment on the merits of using the results from part (a) to allocate the forecast 2010 Wholesale Transmission costs to customer classes.
c) How many delivery points does Toronto Hydro have that are subject to Line and/or Transformation Connection charges by the either the IESO or Hydro One Networks?

VECC Question#57

References: Exhibits Q1 Tab2 Schedule 1 Tables 2 and 3; Q1Tab 3 Schedule 1

Preamble: Kinetrics 2009 ACA and HI assessment includes the following assessments (Relative to 2006)

- Wood Poles had an 8.6% increase of assets in poor and very poor condition.
- Station Transformers had a 10.4% increase of assets in poor and very poor condition. This indicates that THESL should review its maintenance practices, particularly as they relate to Stations Transformers, and be prepared to have more assets in need of replacement or major refurbishment.
- Underground cables (not in duct)had a significant increase in percentage of assets in poor and very poor condition based on the number of faults experienced over the last five and a half years: almost 75%

a) Provide a schedule that provides a summary of capital investment and maintenance expenditures for these 3 asset groups from 2006-2009 and forecast 2010. Show the also the percentage invested in these categories as a percentage of
   i. sustaining capital
   ii. overall total capital
   iii. sustaining maintenance costs
   iv. overall maintenance costs
b) If THESL agrees that the KInetrics assessment shows deteriorating asset condition in these groups, then discuss why did not the Capital Plan channel more dollars to these critical asset categories in the period 2007-2009
c) THESL appears anecdotally in part to "blame" the Board- directed reduction in Capital and maintenance in EB-2007-.0680 (Exhibit Q1Tab 2Schedule 1 Page

6 and Table 3). Provide proper support for this “claim” based on the response to part a) or otherwise explain why the average condition of these assets groups continues to deteriorate.

d) Identify in Table 5 of Q1 Tab 2 Schedule 1 deferred projects in the three groups and the cost reduction and period of deferment related to the EB-2007-0680 Decision
e) Does remediation of the secondary system (new priority) have a higher/lower priority than the underground primary system? Please discuss.

VECC Question #58

References: Exhibit Q1 Tab 5 Schedule 1

a) Provide a version of Table 1 that matches THESL regulatory filings (Board approves where available for CAPEX and FTEs. Then make the following additions
b) Insert a line that shows external contractor costs related to capital projects
c) Insert a line that shows controllable OM&A costs (excluding Amortization)
d) Insert a line that shows #customers
e) Insert a line that shows Kwh distributed
f) Provide the following ratios
    i. Capex/FTE (including external contractors)
    ii. O&M/ FTE
    iii. Customers per FTE
    iv. Kwh/distributed per FTE
g) Graph these ratios in the same format as the chart on page 5
h) Discuss the trends in capital and labour productivity based on the above 4 ratios.

VECC Question #59

Reference: Exhibit Q1 Tab 5 Schedule 1 Page 8

a) Provide a list of all scorecards and their KPIs employed by THESL
b) Other than Supply Chain Management, which Scorecards/KPIs were examined in depth by Key Willow Consulting
c) Provide copies of any other assessments analyses similar to that on page 5 for Supply Chain Management
d) Does THESL agree that the Key Willow Study falls short of meeting the Board’s direction

   “The Board expects that the Company will develop the ability to track productivity gains throughout its operations in a programmatic manner that will appropriately inform its next rebasing application.”.

   If THESL disagrees explain why not.
e) Explain why THESL did not undertake a standard productivity study. For example a capital and labour productivity study similar to that that the Pacific Economics Group (PEG) undertook for the Board to assess productivity factor differentials for 3GIRM .

f) What was the cost of the Key Willow study?