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September 24, 2010

via RESS e-filing – original to follow by courier

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

Dear Ms. Walli:

**Re: Toronto Hydro -Electric System Limited's
Application for Approval of Recovery of Contact Voltage Remediation Costs
OEB File No. EB-2010-0193**

Pursuant to Procedural Order #4, enclosed are Toronto Hydro-Electric System Limited's responses to supplemental interrogatories received from Board Staff and School Energy Coalition.

Please direct any inquiries to the undersigned.

Yours truly,

[original signed by]

Colin J. McLorg
Manager
Regulatory Policy & Relations

encl.
:CJM/JL/acc

cc: Intervenor of Record for EB-2010-0193 by electronic mail only

INTERROGATORIES OF ONTARIO ENERGY BOARD STAFF ON SUPPLEMENTARY EVIDENCE

INTERROGATORY 1:

Reference(s): **page 1**

It is stated that:

“In addition, THESL corrects, by way of this supplementary evidence, an error in the identification of charitable donation and special event costs which are non-eligible for inclusion in controllable expenses. As a result controllable expenses are reduced by \$0.46 million and the amount requested for contact voltage cost recovery is correspondingly reduced from \$9.05 million to \$8.586 million. THESL regrets this error and any misunderstanding it may have caused.”

Please clarify whether or not the discovery of this error prior to the preparation of the audited financial statements would have had the effect of lowering operating expenses by this amount. If not, please state why not and what if any effect its discovery would have had on the audited financial statements.

RESPONSE:

The error had no effect on actual operating expenses as recorded on THESL’s audited financial statements, but rather was simply a result of selecting an incorrect figure when adjusting total operating expenses to controllable expenses. However, it did have the direct effect of increasing controllable expenses.

There was no effect on the audited financial statements which remain correct.

INTERROGATORIES OF ONTARIO ENERGY BOARD STAFF ON SUPPLEMENTARY EVIDENCE

1 **INTERROGATORY 2:**

2 **Reference(s):** page 3

3
4 It is stated that:

5 “Residual contact voltage expenses were actual expenses incurred in
6 account categories eligible for inclusion in controllable expenses and
7 revenue requirement, but excluded by the Board from recoverable contact
8 voltage expenses. For example, these costs included follow-on scanning
9 costs. However, their exclusion from recoverable contact voltage costs
10 does not preclude these costs from inclusion in controllable expenses.”

- 11 a) Please state why THESL does not exclude all contact voltage costs including the
12 residual contact voltage expenses referenced above in determining the 2009 Actual
13 Controllable Expenses for purposes of comparing to the amount underpinning
14 THESL’s 2009 base rates?
- 15 b) Please comment on whether or not the inclusion of the residual contact voltage
16 expenses in controllable expenses, as proposed by THESL, would result in THESL
17 effectively recovering these expenses and, if not, why not.

18
19 **RESPONSE:**

- 20 a) In its December 2009 EB-2009-0243 Decision, the Board did not *disallow* the
21 residual contact voltage expenses but rather excluded them from recovery by THESL
22 as extraordinary expenses. Furthermore, had the Board intended to disallow residual
23 contact voltage expenses from inclusion in the calculation of controllable expenses, it
24 certainly would have done so in its Decision. Nowhere in the Decision is there any
25 express statement or implication that residual contact voltage expenses, all of which

INTERROGATORIES OF ONTARIO ENERGY BOARD STAFF ON SUPPLEMENTARY EVIDENCE

1 were incurred in account categories eligible for inclusion in revenue requirement,
2 would not be recognized as operating expenses eligible to be included in the
3 calculation of controllable expenses. In summary, the Board excluded the residual
4 contact voltage costs from recovery as extraordinary expenses, but did not disqualify
5 those expenses from recognition as actual operating expenses.
6

7 b) The recognition of the residual contact voltage expenses as controllable expenses
8 does not result in their being recovered as extraordinary contact voltage expenses,
9 since the Board expressly excluded them from that category. As a result the residual
10 contact voltage expenses become part of 'normal' operating expenses for which the
11 shareholder is at risk. In its Decision, the Board recognized this explicitly at page 11
12 where it stated:

13 "some of the remediation work undertaken during the emergency would have
14 otherwise arisen as forced outages of secondary circuits as THESL would
15 have responded to those events as normal trouble calls **and the costs would**
16 **have been reflected in its 2009 revenue requirement for OM&A. For**
17 **these reasons, the Panel reduces the requested relief by a deemed amount**
18 **of \$2.5 million.**

19 The Panel further reduces the requested relief by \$2.41 million in ongoing
20 scanning costs as suggested by Energy Probe and SEC for the reason that
21 once the emergency event was dealt with, the costs for ongoing scanning of
22 the system cannot be characterized as emergency related. Once the
23 emergency was resolved and THESL made a decision to change its operating
24 parameters of the secondary system to an inspect and maintain model, **these**
25 **costs were part of normal budgetary pressures that are subject to**
26 **budgetary re-alignments."** [emphasis added]

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1 In this case the proposal by THESL is exactly in accordance with the Board's
2 Decision. To the extent that there is any shortfall in controllable spending below the
3 allowed 2009 amount, that shortfall is deducted from the conditionally recoverable
4 contact voltage amount. Had THESL overspent controllable expenses, it would not
5 be entitled to, nor would it obtain, any recovery from ratepayers.

INTERROGATORIES OF SCHOOL ENERGY COALITION ON SUPPLEMENTARY EVIDENCE

1 **INTERROGATORY 1:**

2 **Reference(s):** **page 1**

3

4 Please describe how “actual 2009 controllable expenses can be...independently derived”
5 [emphasis added].

6

7 **RESPONSE:**

8 The tables forming Appendix A to the Supplementary Evidence filed on September 10,
9 2010 demonstrate precisely how actual 2009 controllable expenses were independently
10 derived from THESL’s audited 2009 financial results. Nonetheless, for further
11 clarification, this statement makes reference to the fact that while the recoverable contact
12 voltage amount is dependent on the level of actual controllable expenses, actual
13 controllable expenses are independent of (i.e., not a function of) the recoverable contact
14 voltage amount. In this case, as in all cases, actual controllable expenses are a matter of
15 audited actual operating expenses, adjusted to bring them to the same definitional basis as
16 controllable expenditures. For example, controllable expenditures exclude operating
17 expenses in the categories of non-heating charitable donations and political donations.

INTERROGATORIES OF SCHOOL ENERGY COALITION ON SUPPLEMENTARY EVIDENCE

INTERROGATORY 2:

Reference(s): Ex J/1/3/App. A, Update

Please provide a full explanation as to why the December “Total OM&A” figure of \$25.0 million is \$8.0 million greater than the average monthly OM&A for 2009, \$17.0 million. Please provide a copy of the end of year adjustments to OM&A, and all related entries, including but not limited to accruals of expenses not yet paid or invoiced. Please provide a comparison of the year-end OM&A adjustments in 2009 with the year-end OM&A adjustments in 2008, and explain any material differences in quantum, or new adjustments in 2009 that were not made in 2008.

RESPONSE:

THESL rejects the premise of this question, which is that an ‘average monthly’ OM&A figure is a proper benchmark for any comparison. THESL’s monthly OM&A expenditures are a result of a complex set of interacting factors which may change during the course of any year and between years. As is demonstrated in the quarterly data provided in the response to SEC interrogatory #4, there is no consistent pattern to monthly or quarterly expenditures and no conclusions can be validly drawn as to the accuracy or prudence of those expenditures as reported simply by comparing the time-patterns of those expenditures. THESL’s recognition of expenses is guided by established and generally accepted accounting principles and is not driven by any considerations of monthly or other time-based averages.

In addition, while THESL had provided the requested 2009 OM&A monthly data in Exhibit J, Tab 1, Schedule 3, Appendix A, it strongly cautioned that for a variety of

INTERROGATORIES OF SCHOOL ENERGY COALITION ON SUPPLEMENTARY EVIDENCE

1 reasons this data was of very limited value for general analysis.

2

3 Furthermore, as noted in Exhibit J, Tab 1, Schedule 3, the Board, in its Decision stated
4 that:

5 “The Panel therefore finds that it would be reasonable in the circumstances for
6 any relief provided in this Decision to be conditional on THESL’s actual spending
7 in controllable OM&A expenditures for the 2009 year (ending December 31,
8 2009).”

9

10 And that:

11 “...THESL’s audited 2009 statements shall be the basis of determining the level
12 of underspending, if any.”

13

14 Monthly trends in spending are irrelevant to the test specified in the Board’s original
15 Decision.

16

17 THESL has previously responded to the request for year-end adjustments to OM&A.

INTERROGATORIES OF SCHOOL ENERGY COALITION ON SUPPLEMENTARY EVIDENCE

INTERROGATORY 3:

Reference(s): Ex J/1/3/App. A, Update

Please provide all forecasts, budgets and reports made internally between March 31, 2009 and November 30, 2009 that include any estimate of the final OM&A number for 2009, either overall or for any given department or major functional group, including but not limited to any periodic budget variance reports provided to management or to the Board of Directors. Please explain any material variances between those periodic reports and the final controllable expenses claimed by the Applicant in this proceeding.

RESPONSE:

As noted in the Board's Decision previously referenced in the response to SEC Interrogatory # 2, the issue of within-year OM&A forecasts is entirely irrelevant to this proceeding. The Decision clearly stated that the only variable determinant of the recoverable Contact Voltage amount was the level of year-end actual controllable expenses, as determined by THESL's audited 2009 financial statements.

Nevertheless, a forecast of 2009 OM&A data was provided in THESL's July 14, 2010 response to SEC Interrogatory #1 (Exhibit J, Tab 3, Schedule 1), which asked for a comparison of 2009 Bridge Year OM&A to 2009 Actual OM&A. That response clearly demonstrated that the year-end actual expenses were largely in line with the mid-year (Bridge) forecast.

INTERROGATORIES OF SCHOOL ENERGY COALITION ON SUPPLEMENTARY EVIDENCE

INTERROGATORY 4:

Reference(s): Ex J/1/3/App. A, Update

Please provide the monthly breakdown of OM&A for 2007 and 2008 as ordered by the Board in PO #2, in the same format as Ex. J/1/3/App. A, Update.

RESPONSE:

THESL's August 23, 2010 response to PO#2 stated that 2007 and 2008 OM&A data (mapped to the USoA accounts) would not be "possible to produce with reasonable effort, and would in any event represent judgemental mappings substantially after the fact with little probative value." THESL continues to hold this position.

However, for comparison purposes THESL provides below quarterly Operating Expense data (not mapped to USoA accounts) from its quarterly financial reports, which shows higher than average expenses in the fourth quarter in both 2008 and 2009.

Quarterly Operating Expenses (\$ Millions)

	2007	2008	2009
Q1	46.46	45.29	54.32
Q2	44.80	43.17	43.05
Q3	40.68	43.25	47.84
Q4	40.78	50.65	50.24