Ontario Energy Board
P.O. Box 2319
27th. Floor
2300 Yonge Street
Toronto ON M4P 1E4
Telephone: 416- 481-1967
Facsimile: 416- 440-7656
Toll free: 1-888-632-6273

Commission de l'Énergie de l'Ontario
C.P. 2319
27e étage
2300, rue Yonge
Toronto ON M4P 1E4
Téléphone; 416- 481-1967
Télécopieur: 416- 440-7656
Numéro sans frais: 1-888-632-6273

Ontario

BY E-MAIL

November 16, 2010

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

Dear Ms. Walli:

Re: Board Staff Interrogatories
2011 Electricity Distribution Rate Application for Toronto Hydro-Electric System Limited
EB-2010-0142

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

Sincerely,

Original Signed By

Martin Davies
Project Advisor, Applications & Regulatory Audit

Attachment

Board Staff Interrogatories
2011 Electricity Distribution Rates
Toronto Hydro-Electric System Limited
EB-2010-0142

Preamble:

Based on staff's review of the application, there are a number of instances where THESL does not appear to have filed information required by Chapter 2 of the Board's "*Filing Requirements for Transmission and Distribution Applications*" of June 29, 2010 (the "Filing Requirements"). For instance, page 4 of the Filing Requirements states that "Data for the following years, at a minimum, must be provided" and goes on to state among other requirements the three most recent historical years of data must be provided. THESL has not provided three years of historical data in the present application. There are other instances as well where THESL has not provided appendices as outlined in the Filing Requirements. A number of the interrogatories that follow request the filing of any missing information.

1. GENERAL

1) Ref: E A1/T2/S1

Following publication of the Notice of Application, did the applicant receive any letters of comment? If so, please state whether a reply was sent from the applicant to the author of the letter. If yes, please file that reply with the Board. If no, please explain why a response was not sent and state if the applicant intends to respond.

2) Ref: E C1/T5/S1

This exhibit provides THESL's Conditions of Service Revision #9, Effective Date: February 22, 2010. With respect to this document:

a) Please identify any rates and charges that are included in the applicant's conditions of service and if there are any such rates and charges, provide an explanation for the nature of the costs being recovered.
b) If there are any such rates and charges, please provide a schedule outlining the revenues recovered from these rates and charges from 2006 to 2009 and the revenue forecasted for the 2010 bridge and 2011 test years.
c) If there are any such rates and charges, please explain whether in the applicant's view, these rates and charges should be included on the applicant's tariff sheet.

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

3) Ref: E A1/T1/S1/p2 and E D1/T8/S12/p1

In the first reference, THESL states that it "has filed with this application as Exhibit D1, Tab 8, Schedule 12, Appendix A, a plan that addresses the incorporation of distributed generation into its grid."

Appendix A of the second reference is a report dated July 12, 2010 by Navigant Consulting entitled "THESL Next Steps for DG Study." This is described as a "scope of work."

The Board's EB-2009-0139 Decision directed THESL to "continue its analysis of the incorporation of DG into its Central and Downtown areas. In that regard it shall file a plan concurrent with its filing according to its distribution system planning requirements." The Decision went on to state that the plan to be filed "will contain an adoption of and justification for the "next steps" listed in the Navigant study and referenced above, or in the alternative, rationale for an "alternative approach" to determining the optimal power system configuration for Central and Downtown Toronto."

a) Please state why THESL believes the "scope of work" study filed in this proceeding is in compliance with the Board's direction in the EB-2009-0139 Decision. Please include specific commentary of how the "scope of work" study meets the requirement for an adoption of and justification for the next steps outlined in the Navigant study filed in the EB-2009-0139 proceeding.
b) Please provide an update on THESL's timeline and plans with respect to enabling distributed generation, particularly with respect to FIT and microFIT applications and in context of the recommendations of the Navigant "scope of work" referenced above.

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

4) Ref: E C1/ T4/ S1, App. B, p.5

When discussing its financial projections for its application, THESL provides a projected CPI rate for 2010 of 2.5%, which is stated as provided by the Conference Board of Canada.

a) Please confirm that this number came from page 4 of the Conference Board of Canada report "Economic Insights Into 27 Canadian Metropolitan Economies" from Spring 2010 included as Exhibit C1, Tab 4, Schedule 2, Appendix A. If not, please state how it was derived.
b) Please state whether or not this is the most recent version of this report and, if not, please provide the most recent version.
c) Please state whether this rate is used throughout the application when a CPI rate assumption is required. If not, please state what other CPI rate assumptions are contained in the application and when and why they are used.

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

5) Ref: E B1/ T13/ S1

Table 1 shows Service Quality Measures for the period 2004 to 2009.

The measure "Emergency Response," which has a Board standard of 80%, shows a 2009 result of 79.5%, which is below the Board standard and also continues a decline from the 2007 – 2008 levels of 90% and 86% respectively.

Please provide an explanation for these results and state whether THESL is taking any measures to deal with them and if so what such measures would be. If not, please state why THESL believes that no measures are necessary.

6) Ref: E B1/ T14/ S1

This exhibit discusses THESL's Electricity Infrastructure Reliability Performance Indicators, specifically SAIFI, SAIDI and CAIDI.

a) Please state whether or not THESL breaks down these indicators into more disaggregated levels of its service area (e.g. Old City of Toronto, Scarborough, etc). If THESL does undertake such breakdowns, please state the extent of the disaggregation undertaken and provide the disaggregated results. If not, please state why not.
b) Please discuss how THESL links its capital expenditure program to the needs of specific areas of its service territory. Please also discuss how THESL ensures that its capital expenditures are targeted to deal with reliability issues.

7) Ref: E B1/ T14/ S1

Table 4 "Reliability Performance Without MEDs and Loss of Supply" shows that while SAIFI decreased from 1.66 in 2008 to 1.51 in 2009, both SAIDI and CAIDI increased in 2009 relative to 2008 levels.

On page 6, it is stated that "Generally, system reliability performance has shown improvement between 2008 and 2009, some of which may be attributable to THESL's investment program."

Please state why THESL considers that generally system reliability performance has shown improvement between 2008 and 2009 when two of the three indicators have deteriorated.

8) Ref: E B1/ T14/ S1

a) Please provide THESL's achieved reliability performance for the period 2006 to 2009 for SAIDI, SAIFI and CAIDI, with and without Loss of Supply

interruptions but including Major Event Days (MEDs), by filling out the following table.

	All Service Interruptions			Service Interruptions excluding Loss of Supply (Cause Code 2)		
	SAIDI	**SAIFI**	**CAIDI**	**SAIDI**	**SAIFI**	**CAIDI**
2006						
2007						
2008						
2009						

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

No interrogatories.

Issue 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?

9) Ref: Issues List Decision and Procedural Order No. 2, p.4

The above reference stated that:

"The Board finds that Issue 1.5 is relevant to the present proceeding and will be on the Approved Final Issues List. The Board finds that 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."

a) Please provide THESL's views, with explanation, as to whether or not the rates arising out of the Board's Decision on this application would serve as an appropriate and robust starting point for applying the 3rd generation incentive regulation formula annually for the next three years.
b) If THESL does not consider that the rates arising out of the Board's Decision on this application would serve as an appropriate and robust starting point for applying the 3rd generation incentive regulation formula:
    i) please explain what conditions or factors need to be considered to establish appropriate rebased rates going into an incentive regulation formula-based approach
    ii) please provide THESL's views on whether or not its 2012 rate application should be based on 2012 rates calculated based on a cost-of-service approach, along with a proposal for an incentive mechanism for adjusting rates in 2013 and subsequent years,
c) Please identify the process that THESL believes the Board should follow to examine alternative methodologies for setting THESL's rates following the completion of the present proceeding. Please provide details of each major step, including timing, for the process identified

2. LOAD and REVENUE FORECAST

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

Methodology

10) Ref: E K1/ T1/ S1, p. 6

THESL states that demographic, economic conditions and conservation activities are captured in its model by the customer, population, and time trend variables:

a) Please provide further explanation as to how the linear trend variable is developed.
b) The time trend variable has a negative co-efficient. This suggests that as the value of the variable increases, the resulting volume would decrease. Given this relation, how is it appropriate that as economic conditions improve, volume declines?
c) Please provide an alternate scenario excluding the linear trend variable.
d) Please provide an alternate scenario including other economic indicators such as Toronto area real GDP monthly index numbers.
e) THESL states that "one of the significant drivers of these decreases is believed to be the impact of conservation…". Please provide an explanation as to why CDM is captured by an economic variable.

11) Ref: E K1/ T1/ S1, p. 6

THESL states that the standard definition of HDD, which uses 18 degrees Celsius as the point at which loads start to be impacted by temperature, was not as effective as a measure which uses 10 degrees Celsius as the "balance point".

a) The acceptable standard for HDD for both electricity distributors as well as gas distributors is a balancing point of 18 degrees Celsius. Please provide further evidence supporting a change of this standard to 10 degrees Celsius.
b) Does a reduction of the balancing point from 18 degrees Celsius to 10 degrees Celsius effectively lower THESL's load forecast?
c) Please re-run the load forecast using the standard HDD 18 degrees Celsius in the regression model and subsequent regression equation.

Load Forecast

12) Ref: E K1/ T3/ S1, p. 1

Table 1 Note 1 indicates that THESL has applied a loss factor to convert purchased energy to billed energy by class. Please provide details of this conversion including the loss factor used.

Customer Count

13) Ref: E K1/ T1/ S1, p. 10

THESL states that the forecast of customers for the residential sector in 2010 through 2011 includes residential growth resulting from suite metering activity (installation of suite meters in new condominium suites, as well as the conversion of some condominiums from bulk-metered to individual suite-metering).

a) Please provide the percentage of new individually-metered condominium suites versus suites converted from bulk-metering to individual metering.
b) Provide an estimate of how many bulk meters are added each year.
c) Provide an estimate of how many individually-metered suite meters result from a bulk meter.
d) Please provide a customer count forecast excluding the individual suite meters.

Issue 2.2 Is the proposed amount for 2011 other revenues appropriate?

14) Ref: I 1/ T1/ S1/pp. 2 - 5

THESL has forecast a decline in Other Income from $3.6 million in the 2009 historical year to zero in the 2011 Test year, while forecasting $5.5 million in the 2010 Bridge year.

On page 3 THESL states that "THESL earns revenue by providing services to customers and third parties, gains on the sale of scrap metal, and earns interest income from short-term investments of its idle cash balances".

Please break down these components of Other Income to demonstrate how the three factors referenced above have contributed to Other Income. Please provide this breakdown for the 2006 to 2009 Historical years, the 2010 Bridge and 2011 Test years. Please include:

a) the amount of any gains on the sales of scrap metal as well its book value at the time of sale. Please include the actual revenues earned to date from the sales of scrap metal for the 2010 Bridge year.
b) the level of available cash for short-term investment
c) revenue earned by providing services to customers and third parties including revenue and expenses from Merchandise and Jobbing for the past five historic years.
d) an explanation as to why Other Income is dropping from $5.5 million in the 2010 Bridge year to zero in the 2011 Test year.

3. OPERATIONS, MAINTENANCE and ADMINISTRATION COSTS

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

15) Ref: E C2/T2/S2/pp.2-3

Table 1 on page 2 shows spending in the substation category increasing in the 2011 Test year to $4.2 million from a level of $1.1 million in the 2010 Bridge year.

On page 3, the reason for this increase is stated as being "to support the overall modernization strategy, address capacity, compliance, obsolescence, functionality and normal aging."

Please provide a breakdown of this increase between the above referenced factors and an explanation of the increase within each of the relevant categories.

16) Ref: E C2/T3/S2/p.3

Table 1 on this page includes a category "Emerging Portfolios" which is shown as increasing from a zero level in 2008 and 2009 to $32 million in the 2010 Bridge year and $20.3 million in the 2011 Test year.

Please provide a breakdown of the referenced 2010 and 2011 amounts.

17) Ref: E C2/T3/S2/p.5

Table 3 on this page outlines commodity price net changes on a percentage basis for 2009, 2010 and 2011. For wire and cable, there is a zero percent change in 2009, a 12 percent decrease in 2010 and a 4 percent increase in 2011. Similarly, for pole line hardware, there is a zero percent change in 2009, a 12 percent decrease in 2010 and a one percent increase in 2011.

Please provide a year-by-year explanation of these changes for the two referenced categories.

18) Ref: E C2/T3/S3/pp.8-9

It is stated that:

"Mobile detection technology has been used by many utilities, in particular, Consolidated Edison ("ConEd") in New York City has used it since 2004. They currently own a fleet of 15 mobile detection vehicles and perform 12 complete system scans per year as required by their regulator, the New York Public Service Commission. Feedback received from ConEd and other utilities using this technology is positive."

Table 1 on page 9 shows costs for contact voltage scan as being $4 million in the 2010 Bridge year and $4.4 million in the 2011 Test year.

a) Please state why the New York Public Service Commission requires ConEd to perform 12 complete system scans per year and please identify how many scans THESL is performing.

b) Please elaborate on the nature of the positive feedback THESL has received from ConEd and other utilities including which other utilities THESL has received this feedback from.
c) Please state whether THESL has any comparative costing data from other utilities and if so how the costs incurred by other utilities compare to the costs that THESL is incurring and expecting to incur.
d) Please state whether or not there are other alternatives to mobile detection technology and, if so, whether or not THESL considered such alternatives and why they were not chosen.

19) Ref: E D1/T3/S1, E F1/T1/S1, E F2/T1/S1, E J1/T2/S1

In each of these Exhibits, different presentations of OM&A numbers are provided.

Exhibit D1 provides distribution expenses based on the Board's reporting categories.

Exhibit F1 provides operations and maintenance distribution expenses, while Exhibit F2 provides administration and general expenses. When these numbers are totaled, they are different from the total in Exhibit D1.

Exhibit J1 provides distribution expenses before PILs. These numbers are different from both those of Exhibits F1 and F2 and from Exhibit D1.

a) Please provide a schedule reconciling the differences between these numbers for all years contained in the application.
b) Please provide a breakdown of the drivers of the increases in THESL's OM&A costs in the format of Appendix 2-G of Chapter 2 of the Board's Filing Requirements for the years 2009, 2010 Bridge and 2011 Test .

20) Ref: E F1/T1/S1

Please state whether or not any CDM costs are incorporated for recovery in the 2011 Test year. If there are any such costs, please state the basis on which THESL believes their recovery through rates is appropriate.

21) Ref: E F1/T1/S3/p4

It is stated that:

"As is detailed in Exhibit C2, Tab 3 Schedule 3, THESL engages a number of qualified external entities to perform preventative maintenance tasks for several programs. External contractors are engaged to provide these services due to the seasonal nature of the work and the specialized expertise and equipment required. This practice of using external contracts is considered utility best practice in meeting seasonal maintenance requirements."

Please state whether or not THESL's use of external contractors is based on a cost-benefit analysis. If so, please state the amount of annual savings, if not please identify the rationale for outsourcing.

22) Ref: E F1/T1/S4/p5

It is stated that:

"THESL uses a ten-year inspection cycle for testing and treatment of its 159,000 wood poles."

Please state whether the ten-year inspection cycle is an industry standard and if not, how it was determined.

23) Ref: E F1/T1/S4/pp5-7

It is stated on page 5 that:

"THESL has elected to employ mobile contact voltage scanning technology. Power Survey Company, which owns the rights to the technology, has been selected to perform scans of the distribution system in Toronto…"

On page 7 when discussing the increase in predictive maintenance costs in the 2011 test year, it is stated that "This increase includes a forecasted increase from $4 million to $4.4 million for the Contact Voltage Scan program under external contracts."

a) Please provide a detailed breakdown of these costs.
b) Please describe the process by which Power Survey Company was selected, including whether or not there was a competitive bidding process and, if not, why not.
c) Please state whether or not the decision to hire Power Survey Company was based on any cost/benefit analyses. If so, please provide the results, if not, please explain why not.

24) Ref: E F1/T1/S6/p3

Table 1 shows an increase in emergency maintenance costs in the 2011 Test year to $7.5 million from $6.6 million in the 2010 Bridge year. This increase is attributed in part to changing weather patterns including more frequent mini-storms and more severe storms.

a) Please state whether the conclusion that changing weather patterns are a factor in this cost increase is based on a study, and if so please file such study, or on THESL's observations and when these changing weather patterns began to impact these costs.
b) Please provide a breakdown of emergency spending costs on an equivalent basis to that of Table 1 for the years 2004 to 2007.

25) Ref: E F1/T2/S1/p3

Table 1 presents Fleet and Equipment Services ("FES") costs for 2008 and 2009 Historical, 2010 Bridge and 2011 Test years. Please provide these numbers for the years 2004 to 2007.

26) Ref: E F1/T2/S1/p5

Table 3 presents Laboratory Service Operating Costs for 2008 and 2009 Historical, 2010 Bridge and 2011 Test years. Please provide these numbers for the years 2004 to 2007.

27) Ref: E F2/T3/S1/p2 Update November 8, 2010

Table 1: "Charitable Donations Cost" shows an amount for the 2011 Test year of $0.7 million. The covering letter accompanying this update states that "THESL has increased its Charitable Donations amount for 2011 to $0.7 million to reflect direction provided by the Board in its letter dated October 20, 2010 with respect to LEAP Emergency Financial Assistance."

a) Please provide the calculation from which this amount is derived in sufficient detail so that its compliance with the Board's letter can be assessed.
b) If there are departures from the Board's letter, please state what they are and provide a justification for them.
c) Please state whether or not the applicant has included an amount in its 2011 Test year revenue requirement for any legacy program(s), such as Winter Warmth. If so, please identify the amount and provide a breakdown identifying the cost of each program along with a description of each program.

28) Ref: E F2/T3/S1

In this section, charitable contributions are discussed.

Please identify whether or not the applicant has included any charitable or political donations as part of its forecast OM&A expense for the Test Year. If yes, please identify the amounts and the account in which the donations are recorded, and whether the amounts are compliant with Section 2.5.2 of the Filing Requirements.

29) Ref: E F2/T5/S1/p1

Table 1 on this page provides a breakdown of THESL's Finance A&G costs. This table shows total levels of $4.3 million for 2008 Historical, $4.5 million for 2009 Actual, $10.5 million for 2010 Bridge and $15.3 million for 2011Test. Please break down the Year by year increases into two components: (1) component of the increase related to costs previously charged as THC Shared Services functions recorded in Governance now charged to Finance as part of the reorganization, and (2) remaining component not related to this reorganization and the factors explaining this element of the increase.

30) Ref: E F2/T6/S1/p3

On this page, the costs for the Treasury, Rates and Regulatory Affairs groups are shown.

a) Please provide a breakdown of THESL's regulatory costs in the format of Appendix 2-H of the Filing Requirements.

31) Ref: E F2/T6/S1/p3

Table 1 includes an item "Short-Term Interest Expenses on Line of Credit and Customer Deposits." This item was zero in 2008 and 2009 increasing to $1.6 million in the 2010 Bridge year and $2.9 million in the 2011 Test year.

When describing the line of credit expense, it is stated that "Due to the recent crisis in short-term credit markets, the market-based fees associated with short-term lines of credit have increased significantly. In the Test year, THESL has forecast fees on the short-term lines to be $2.1 million."

a) Please break down these amounts into the two component items.
b) For the line of credit expense, please provide a detailed explanation as to the reason why these fees are forecast to be $2.1 million. Please also discuss why no fees were paid in 2008 and 2009.
c) Please state whether or not these fees are being included for recovery in the 2011 revenue requirement. If these fees are being included, please explain why they would not be recovered through the 4% short-term debt component of the deemed capital structure.

32) Ref: E F2/T7/S1

In this section, Legal Services costs are discussed. Please state whether or not any legal costs related to the late payment penalty settlement process are included for the 2011 Test year.

33) Ref: E F2/T9/S1/pp. 4-5

On these pages, external and contract services are discussed. Please provide the following for Historical, Bridge and Test years:

1. Identity of each company transacting with the applicant subject to the applicable materiality threshold
2. Summary of the nature of the product or service that is the subject of the transaction
3. Annual dollar amount related to each company (by transaction)
4. A description of the specific methodology used in determining the vendor (including a summary of the tendering process/cost approach, etc.).

34) Ref: E F2/T10/S1/p. 4

It is stated that:

"Given the unprecedented level of recruitment and an increased level of labour relations activity, it was decided in late 2009 to separate staffing and labour relations, thereby ensuring talent acquisition was not overshadowed by urgent labour needs."

a) Please state how THESL reached the decision to undertake this separation e.g. was it based on a study, and if so please state who conducted the study and summarize its key conclusions.
b) Please state whether there were any additional costs arising from this decision, either on a one-time or incremental basis.

35) Ref: E F2/T10/S1/pp. 5-6

It is stated that:

"The infrastructure plan will result in unprecedented numbers of contractors working on THESL's equipment and facilities. Many of them will be unfamiliar with the system's unique risks and therefore, will place additional pressures on the requirements to manage safety. A priority is to reinforce existing EHS Programs and work procedures and ensure this workforce is properly trained to work safely and efficiently on THESL's distribution system."

a) Please provide more details as to how THESL will ensure that this work force is properly trained and provide a breakdown of the anticipated costs.
b) Please state whether this aspect of the infrastructure plan is anticipated to have any impact on the reliability of the distribution system.

36) Ref: E F2/T10/S1/pp. 8-9

Table 4 "Organizational Development & Performance Costs" shows an increase in these costs to $4.8 million in the 2011 Test year from a constant level of $2.8 million in the two most recent historical years of 2008 and 2009. Table 5 provides an explanation of the reasons for this increase.

Please provide a breakdown of the $2 million increase between the explanatory factors outlined in Table 5.

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

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

37) Ref: E C1/T3/S1

Please complete the following table for 2009 Historical, 2010 Bridge and 2011 Test years for each service provided or received by THESL:

Year:_____

Name of Company		Service Offered	Pricing Methodology	Price for the Service ($)	Cost for the Service ($)	% Allocation
From	To					

38) Ref: E C1/T3/S1/p.1

It is stated that:

"THC and THESL have completed this consolidation with the result that substantially all of the remaining personnel and associated costs involved in shared services from THC to THESL have been transferred to THESL."

a) Please state whether given the completion of this reorganization, any consideration has been given to merging THC and THESL. If yes, please discuss, if not why not.
b) Please discuss whether or not any cost savings would result from a merger of THESL and THC.

39) Ref: E C1/T3/S1/p.2

It is stated that:

"Consequently, services purchased by THESL from THC will be $1.97 million in 2011, comprised of $1.18 million for strategic leadership, stewardship and governance, and $0.79 million for overall finance leadership to the organization. These services will be performed by the Board of Directors, offices of the Chief Executive Office and the Chief Financial Officer."

Please identify the headcount underlying both of these costs.

40) Ref: E C1/T3/S1/App. B/p.3

The table on this page outlines shared services sold by THESL to affiliates for the 2011 Test year.

a) Please state the meaning of the column "Sold to 14 Co."
b) Please provide supporting calculations for the Finance services sold to TH Energy in the amount of $0.48 million and to Unregulated THESL in the amount of $0.47 million.

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

41) Ref: E B1/T5/S1, Appendix A

This appendix is THC's 2009 Annual Report. On page 1, it is stated that "For the fifth consecutive year, Toronto Hydro Corporation was named one of Canada's Top 100 Employers as chosen by the Canada's Top 100 Employers organization."

The *EDA Weekly* of October 20, 2010 stated that THC had again been selected as one of Canada's Top 100 Employers for 2011 and that more information could be obtained at the web site www.eluta.ca.

The information on this web site rates THC's financial benefits for employees as "above-average" and other benefits as "exceptional."

Please state why it is necessary that THESL, as part of THC, provide "above-average" and "exceptional" benefits and whether or not these ratings would suggest that such benefits could be reduced. If not, please explain why not.

42) Ref: E C1/T4/S1, Appendix C,p. 2

Table 5 shows the Benefit Burden Rate for the 2010 Bridge and 2011 Test years. Please provide the 2007 to 2009 actuals for this rate.

43) Ref: E C2/T1/S2

Please complete the following table:

	2005A vs 2004A	**2006A vs 2005A**	**2007A vs 2006A**	**2008A vs 2007A**	**2009A vs 2008A**	**2010B vs 2009A**	**2011T vs 2010B**
Yearly Market Adjustment/General Increase (%)							
Headcount increase (%)							
Total Compensation Capitalized (%)							

Note: For "Total Compensation Capitalized" please provide the percentage for the year in question, not a year versus year comparison. For the other two columns, please provide the year over year change. A=Actual, B= Bridge, T=Test Year

44) Ref: E C2/T1/S2/p.2

It is stated that:

"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."

a) Please state whether the adoption of this program is expected to result in any cost savings to THESL. If yes, please state the amount. If no, please state the additional costs arising from it.
b) Please state whether or not THESL had any studies undertaken or knew of any studies that indicated that Gain Sharing would be a successful innovation for THESL, or had been proven successful elsewhere.

45) Ref: E C2/T1/S3/p.1

It is stated that:

"The increase in costs related to the OMERS defined benefit pension plan is due to the increase in FTE between 2009 and 2011 (Based on the reorganization and expected hiring), contributory earnings increasing and a possible increase in contribution rates in 2011."

OMERS has announced a three-year contribution rate increase for its members and employers for the years 2011, 2012, and 2013. Please state whether or not the applicant's proposed pension costs include this increase. If so, please provide the forecasted increase by years and the documentation to support the increases. If not, please state how the applicant proposes to deal with this increase.

46) Ref: E C2/T1/S2/App. A/p.1

Please provide an extended version of Table 1: Employee Compensation including 2007 Actuals and 2008 to 2010 Approved.

47) Ref: E C2/T1/S2/App. A/p.1

At Line 31 of Table 1, which provides a breakdown of employee compensation, a number is provided for "Total Compensation (Salary, Wages & Benefits)" which for the 2010 Test Year is $230,036,440.

At Line 54 of the same Table, a number is provided for "Total Compensation" which for the 2010 Test Year is $253,482,831.

Please state the reason for the difference in these two numbers.

48) Ref: E C2/T1/S2/App. A/p.1

"Total Compensation" at line 54 of Table 1 is shown as $253,482,831 for the 2011 Test year and $222,435,763 for the 2010 Bridge year. Please provide a breakdown of the $31 million increase between the yearly market adjustment/general increases and the expected increase in headcount.

49) Ref: E C2/T1/S3/p.2

Table 2 provides "Post-Retirement Benefits Costs" for 2009 Actual, 2010 Bridge and 2011 Test years. Please provide an equivalent table incorporating 2007 and 2008 actuals and 2008 to 2010 approved.

50) Ref: E C1/T1/S4/p.6

Page 6 of the *Compensation Program Guide* contains 2010 weightings for various positions in THC.

a) Please provide definitions of the columns "Individual Performance" and "Corporate Performance."
b) Please identify the changes that have been made in these weightings for 2010 as compared to those that were filed last year, eg. the elimination of the "Affiliate Performance" criteria and the consolidation in the "Position" category as well as any others and state why they were made as well as their expected impact on compensation. Please also discuss how THC's reorganization has impacted these weightings.

51) Ref: E C2/T1/S5/p.3

Table 1 on this page provides "Forecast Retirements" for the 2010 to 2019 period totaling 754 employees.

The equivalent table in THESL's EB-2009-0139 application, contained in Exhibit C2/Tab 1/Schedule 5/page 3 provides "Forecast Retirements" for the 2009 to 2018 period totaling 694 employees.

a) Please provide a breakdown by year for the 2009 to 2019 period which would show increases and decreases by year to explain the additional 60 retirements in this year's application versus last year's application.
b) For the years 2008 to 2010, please provide the number of retirements on which the Board approved rates were set and the actual number of retirements which occurred. For the 2010 actual, please provide the actual to date, plus the forecast for the remainder of the year.

52) Ref: E C2/T1/S5/p.3

It is stated that:

"In 2011, THESL continues to upgrade its distribution system infrastructure. In terms of the labour necessary for plan implementation, THESL projects a shortfall based on current staffing levels of approximately 320 full-time employees ("FTEs") in 2011."

In Exhibit C2 Tab 1 Schedule 2 Appendix A, THESL states that total FTEs for the 2011 Test year are 1,944.

Please state whether the statement quoted above would imply that THESL believes that the necessary FTE level in 2011 to upgrade its distribution system infrastructure would be the 1,944 FTEs presently on the payroll, plus an additional 320 employees. If yes, please explain how this number was determined. If no, please clarify what is meant by this statement. Please include a statement as to what THESL believes the ongoing sustainable level of FTEs necessary to complete the ten-year plan would be.

53) Ref: E C2/T1/S5/p.5

It is stated that:

"THESL secured external resources to support the delivery of the 2010 Capital Program by entering into term contracts with Power Line Plus, Entera and AECON on January 1, 2010. The Design-Build firms provide civil and electrical design, construction and material acquisition services by leveraging the resources of a combined 13 Engineering and construction firms. This component of the staffing strategy will continue to be utilized in 2011."

a) Please state the value of each of these contracts and their term.
b) Please describe the process by which these firms were selected.

c) Please state how many contracts are anticipated to be entered into in 2011, their value and term. Please also provide an update on the status of the 2011 process. If the winning proposals have been determined, please state who the winners are, what they will each be doing and the amount of the winning bid.

54) Ref: E C2/T1/S5/pp.8-9

On page 8, THESL's Trades School program is discussed and it is stated that:

"Between 2003 and 2009, 127 Trades apprentices entered the THESL program. Twenty percent of these apprentices have graduated to date and remain with THESL. Over 89 percent of apprentices have continued in the program."

On page 9, it is stated that there is a 4.5 year lead time required for these apprentices to become fully competent.

With respect to the above:

a) For each of the years 2003 to 2009, please provide the number of apprentices entering the program, the year of graduation, or if they have not graduated, their status today.
b) Please provide the annual costs of the apprentice training program, other than salary and related benefits.
c) For the 11% of apprentices who have not remained in the program, please state the reasons why this has been the case.
d) Please discuss whether the 11% attrition rate is considered normal, below normal or above normal for such a program and also how it compares to THESL's expectations when it commenced the program.

Issue 3.5 Is Toronto Hydro's depreciation expense appropriate?

55) Ref: E D1/T12/S1/p.1

Please state whether there have been any changes in THESL's depreciation policies since the filing of its 2010 cost of service application. If there have been any, please state what they are and confirm whether or not there is an impact on the present application.

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

56) Ref: E H1/T1/S1/p.7

Table 2, "Summary of Property Taxes by Year" provides a breakdown of property taxes for 2009 Historical, 2010 Bridge and 2011 Test years.

Please expand this table to include 2007 and 2008 actuals and 2008 -2010 Board Approved.

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

57) Ref: E H1/T1/S1/p.6

Table 1 provides a summary of PILs by year for the 2005 to 2011 period. This shows that total PILs drops from $62.7 million in 2005 to $28.1 million in the 2011 Test year. Please state whether this drop can be largely attributed to reductions in tax rates, or if there are any other significant factors contributing to it. If so, please state what any other such factors would be.

58) Ref: E P1/T2/S1/p.4

On this page, THESL provides a response to question #7, which is "Has the applicant deducted regulatory assets for tax purposes in 2008 and/or in prior years? *If yes, please explain your reasons in the manager's summary."* Staff notes that THESL responds "Yes" to this question but does not appear to have provided an explanation.

The Board, in a number of EDR 2008 decisions denied increasing regulatory taxable income through the addition of movements, or recoveries, in regulatory assets, e.g Brantford Power, PUC. In the Brantford Power Decision (EB-2007-0698) the Board stated that "The appropriate forum for the issues raised by the Company is the Board's pending proceeding on account 1562. Until that proceeding is concluded, there is no basis for the Board to deviate from the findings it has made in other cases where the same issue has been identified."

Please provide an explanation as to why THESL has deducted regulatory assets for tax purposes in 2008 and/or prior years and state whether such a deduction is incorporated into the 2011 PILS calculation. If it is, please provide a justification in light of the Board's findings referenced above and please also provide revised PILs calculations excluding any such amounts.

4. CAPITAL EXPENDITURES and RATE BASE

Issue 4.1 Are the amounts proposed for Rate Base appropriate?

59) Ref: E D1/ T1/ S1

Please provide a Fixed Asset Continuity Schedule as shown in Appendix 2-B of the Filing Requirements.

60) Ref: E B1/ T10/ S1/p.15/ 2009 Annual Information Form

Note (v), Street Lighting Activities, states with reference to the Board's February 11, 2010 Decision regarding the treatment of streetlighting assets that: "Management is currently evaluating the impact of this decision on its regulated and unregulated businesses and whether to transfer the streetlighting assets to LDC."

a) Please provide an update on this evaluation.
b) Please confirm that no streetlighting assets are contained in the 2011 rate base, or if any are, please provide an explanation.

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

61) Ref: E D1/T7/S1/p.16, E A/T1/S1, p.4 and E D1/T9/S8

Table 2 of the first reference above contains an item in Emerging Requirements for an "Energy Storage Project" for the year 2011 in the amount of $30 million.

The second reference which is contained in the application overview discusses THESL's plans to install a 4 MW energy storage system at a transformer station in downtown Toronto to provide short duration emergency supply. It is stated that:

> "The costs of this project will be entirely contained within CWIP, and does not in any way impact ratebase or revenue requirement in 2011.
>
> In this Application, THESL seeks Board approval in principle of the project and its categorical eligibility for inclusion in ratebase commencing in 2012. THESL is presenting information on this project in this Application because of the unusual completion horizon of the project, which is longer than one year and atypical of most discrete capital projects undertaken by THESL"

The third reference above provides a more detailed description of the energy storage project.

a) Please confirm that the "Energy Storage Project" shown in the amount of $30 million in Table 2 is the same project that is discussed in the second and third references. If this is not the case, please clarify.
b) Please state whether any other projects included in Table 2 of the first reference are entirely contained in CWIP. If yes, please specify the projects and amounts.
c) Please state the legal basis on which THESL believes the Board could provide approval in principle of this project, what exactly it would mean and the extent to which THESL believes such approval would bind a Panel reviewing any subsequent application.
d) Please state how many other of THESL's forecast capital projects have completion horizons longer than one year.
e) Please provide a cost/benefit analysis of this project.
f) Please state why this project is being undertaken by the distribution company as compared to an unregulated affiliate.

62) Ref: E D1/T7/S1

Please provide a summary for the past five historical years, the bridge year and the test year, showing capital expenditures, treatment of contributed capital and additions and deductions from CWIP.

63) Ref: E D1/T7/S1

Please provide a Capital Projects Table as shown in Appendix 2-A of the Filing Requirements.

64) Ref: E C1/ T6/ S1/p. 14

This section discusses THESL's asset management approach. It is stated that:

"As part of the commitment to PAS-55, THESL undertook an internal audit and gap analysis to compare current practices with the requirements of the standard. The audit highlighted two key areas where practices could be improved: mid- to long-term strategy and policy and overall risk management system (especially risk assessment). Much of THESL's asset management development in the last two years – particularly FIM and AIS – has been to improve performance in these areas."

Please state the nature of the deficiencies identified in the internal audit and gap analysis for each of the referenced two key areas and how THESL's asset management development has addressed these areas.

Sustaining Capital Expenditures

65) Ref: E D1/ T8/ S1/pp.4-5

On these pages, THESL describes its relatively poor ranking in a Reliability Peer Group Study of eight comparable cities. Please describe the impact of THESL's capital investment in 2010 on its service reliability and provide Service Quality Indicators to date. Please provide the comparable data for 2009 actual.

66) Ref: E D1/ T8/ S3-2/p.8

THESL states that total installed costs for customer connections is expected to rise about 25 percent between the Bridge and Test years, which is attributable to an increase in residential construction activities and the removal of the Enhancement Cost from THESL's economic model.

Table 3 "Customer Connections and Costs" shows an increase from $32.4 million in the 2010 Bridge year to $41.8 million in the 2011 Test year, a $9.4 million, or 29% increase.

a) Please provide a breakdown of this increase between the two factors discussed, specifically the increase in residential construction activities and the removal of the Enhancement Cost from THESL's economic model.
b) Please provide the percentage of the total amount of the increase due to residential construction activities if the Enhancement Cost had not been removed from THESL's economic model.
c) Please provide further explanation as to why the Enhancement Cost was removed from THESL's economic model and discuss its impact on customer connection costs and the reasons for these impacts.

67) Ref: E D1/ T8/ S1/p. 15

Please provide an itemized breakdown of Underground Rehabilitation capital expenditures for the past five historical years, the bridge year and the test year.

68) Ref: E D1/ T8/ S1/p. 19

Please provide an itemized breakdown of overhead capital expenditures for the past five historical years, the bridge year and the test year.

69) Ref: E D1/ T8/ S1

Please provide an itemized breakdown of network capital expenditures for the past five historical years, the bridge year and the test year.

70) Ref: E D2/ T1/ S1/pp.1-2

Table 1: "THESL Capital Contributions to HONI" shows a capital contribution to HONI for the Leaside-Birch TS project of $13.0 million in the 2011 test year. THESL states that this project is now expected to be completed in 2013.

a) Please provide a detailed explanation as to how this capital contribution will impact the revenue requirement in the 2011 test year.
b) Please provide THESL's estimate as to total costs for the project which it will incur to completion as well as the projected capital contributions for 2012 and 2013.

71) Ref: E D1/ T8/ S1/p.26

A description of capital expenditures for Transformer Stations is found in this exhibit. On page 26, THESL proposes a $5.7 million or 66.3% increase in capital investment for transformer stations over 2009 Historical:

Please provide an itemized breakdown of transformer station capital investments for the past five historical years, the bridge year and the test year including a percentage breakdown for each component of transformer station investment.

General Plant

72) Ref: E D1/ T8/S6-1/p.2

Table 1: "Fleet and Equipment, Tool Crib, Laboratory Capital Program" shows that capital costs for "Total Fleet and Equipment Services" are projected to increase from $9.9 million in 2009 to $13.3 million in the 2011 Test year, an increase of $3.4 million or 34.3%.

THESL states that the increased capital cost for 2011 is required to support further efforts to "green" THESL's fleet.

a) Please provide a breakdown of the vehicles to be purchased in 2011 and their projected costs, specifying which of these are being purchased related to the green initiative.
b) Please state whether or not THESL undertook any comparative assessments of the costs of the green initiative as compared to purchasing conventional vehicles.
   i) If yes, please state how much of the estimated increase in the 2011 Test year is related to the green initiative.
   ii) If not, please state why not and provide an estimate of the incremental costs.

Information Technology

73) Ref: E D1/ T8/ S 8-7

Table 1: "IT Program Cost", shows a capital expenditure of $1.1 million for a Smart Grid initiative.

THESL states that this initiative will support Smart Grid operations related to Electric Vehicles, Active Demand response and Energy Storage.

Please state whether or not this capital expenditure is incremental to the Smart Grid Plan. If so, please explain why it is not classified as a smart grid expenditure. If not, please clarify how it fits into the smart grid plan.

Emerging Requirements

74) Ref: E D1/ T9/ S1/pp.1-2

On page 1, Table 1: "2011 Equipment Standardization Portfolio" shows a decrease of $21 million or 82% of capital spending on standardization over the 2010 bridge year levels.

THESL notes that "The most problematic legacy installations are those installed prior to the amalgamation of the former utilities of Toronto Hydro, Etobicoke Hydro, North York Hydro, Scarborough PUC, East York Hydro and York Hydro into the present day Toronto Hydro, as those are generally more likely to be obsolete and lacking records."

On page 2, THESL states that this variance is due to reclassifying the handwell standardization work as "Secondary Upgrades" and reduced spending on transformer standardization.

a) Please provide further explanation of the decrease referenced above.
b) Please report on the progress of projects in this category in 2010. Please include a status report on the standardization of the problematic legacy installations referenced above.
c) Please provide an itemized breakdown of the costs of all proposed projects in this category.

75) Ref: E D1/ T9/ S3

On Table 2 of page 10, total cost is shown for the FESI7/WPR (Worst Performing Feeders Program) as $10.0 million for the 2011 Test year. This is an increase of $4.5 million or 98% from the 2010 Bridge year.

a) Please provide a detailed breakdown of the categories and projects underlying the number in this table.
b) Please state why THESL considers that FESI 7/WPF is an "emerging requirement" rather than a sustaining capital investment or reactive capital.

76) Ref: E D1/ T9/ S5-1 and S 5-2 and E D1/ T7/ S1, Table 2

Table 1 of the first reference shows a net capital expenditure for Externally Initiated Plant Relocation of $8.0 million. Table 1 of the second reference shows a net capital expenditure of $0. Table 2 of the third reference displays a total capital expenditure of $12.2 million.

a) Please reconcile these three tables and, if necessary, provide any updates to the evidence.
b) Please provide a breakdown of the projects underlying the numbers in these tables for each year shown. Please specify projects for both overhead plant relocations and underground plant relocations and provide start and end dates for each of the projects.

77) Ref: E D1/ T9/ S6

In this section, THESL discusses a project to develop a new substation, Bremner TS. THESL states that this site is currently owned by HONI and that THESL will be the station developer. On page 5, Footnote 1 states that station costs include land, building, substation equipment and distribution system modification costs.

a) Please clarify the respective roles and ultimate ownership of the development, by explaining what system elements are being constructed by Hydro One.
b) On page 5, Table 1 "Estimated Capital Costs" shows capital contribution to HONI totalling $20.4 million by 2013. Please explain which elements of this project require capital contributions and why.
c) Please state whether or not the contribution of $20.4 million constitutes the whole cost of Hydro One's investment or not.
d) Given that distribution asset voltage goes as high as 50 kV and THESL's evidence states that Bremner TS goes above this level, please provide an explanation as to why this asset should be considered a distribution asset.
e) Please indicate whether THESL is planning to apply to have this asset classified as a distribution asset for rate making purposes and when.
f) Please provide a detailed chronology of the project and provide an in-service-date for this asset.
g) Please state whether or not THESL is proposing to incorporate any costs related to this project into rate base in this application or at any time prior to the asset

being used and useful. If THESL is making such a proposal, please provide the justification for it and whether THESL is proposing similar treatment for any other assets in the present application. If there are no other assets for which similar treatment is being requested, please explain why this asset should be treated differently.

78) Ref: E D1/ T9/ S7

Table 1: "Secondary Upgrade" shows a total capital expenditure of $10.0 million in the 2011 Test year. THESL states that for 2011, the scope of work includes excavation and removal of abandoned handwells; replacement of active handwells with non-conductive units; replacement of underground secondary mains cable with a superior, dual-insulation cable and remaking all connections in handwells to the current standard.

a) Please provide an itemized breakdown of the costs of the various components of this program.
b) Please state the total number of handwells that need to be replaced and the number that will be replaced in each year of the program.
c) Please state the number of years it will take to complete this program.
d) Does THESL anticipate that the implementation of this program results in a reduction of THESL's ongoing contact voltage scanning costs? If yes, please state by how much and when. If not, please explain why not.

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

79) Ref: E D1/T14/ S1 and E J1/T2/S4

Table 1 of the first reference provides THESL's working capital allowance for the years 2009 Historical, 2010 Approved, 2010 Bridge and 2011 Test.

The second reference provides a breakdown of the working capital calculation for the 2011 Test year.

a) Please confirm that THESL has not updated its lead-lag study that was filed in EB-2007-0680. If not confirmed, please provide the updated study
b) Please provide a detailed explanation of the calculations in the second reference, including how the working capital factors are calculated and, what is meant by "Net Lag Days," and what the values for these days are in the 2011 Test year.
c) Please provide supporting calculations for the years shown in table format. Please include the commodity price, wholesale market service charge, uniform transmission rates and all other rates and purchase levels used in the calculations.

Issue 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?

80) Ref: E D1/T7/S1/p.16 and E D1/T8/S10/p.5

In the first of these references, THESL's "Total Capital" for the 2011 Test year is shown as $498.0 million.

In the second of these references, the "Total Capital Plan" amount for 2011 is shown as $396.6 million.

Please provide an explanation for the differences between these two numbers and if any revisions are necessary, please provide them.

81) Ref: E D1/ T9/ S6 and E D1/ T8/ S10

In the first reference THESL provides details on Station System Enhancement and table 1 shows a total capital expenditure of $33.1 million for the 2011 test year.

On page 5, line 15 of the second reference, Stations System Enhancement, THESL shows projected total costs of $48.1 million in 2011. Please explain the difference and, if necessary, provide any evidence updates. Please state whether or not the Bremner TS station is the only project in this category for the 2011 test year. If it is not, please state what other projects are included and their respective amounts.

5. CAPITAL STRUCTURE AND COST OF CAPITAL

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

Issue 5.2 Is the proposed Long-Term Debt Rate appropriate?

Issue 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?

82) Ref: E E1/ T1/ S1/p.3 and Exh E1/Tab 3/Sch 2/p.1

The first reference states that:

"THESL's debt is issued at the THC level, as it is the parent who is rated by the credit rating agencies. The utility is assigned debt through promissory notes between the utility and the parent. The promissory notes are written on the same terms as the parent debt as the borrowing is done on behalf of the corporation's affiliates. A fee of five basis points is charged for administration."

Table 1 of Exh E1/Tab 3/Sch 2/p.1 outlines THESL's medium and long-term debt costs for 2010. Included is the $980 million City Note maturing May 6, 2013 with a principal amount of $490,115,467.

a) Please confirm that this debt was restructured by the City of Toronto in March 2010 and sold to debt capital market participants.
b) Please provide a copy of the related short form prospectus.
c) Please state whether or not THC was required to consent to the restructuring.
d) Please state whether or not THC was required to waive any terms of the Promissory Notes, and if so, please state what waivers were provided.
e) Please state whether THC received any consideration for facilitating this transaction. If so, please specify the amount and highlight where in the application it is reflected. If such consideration was not received, please state why not.
f) Please confirm that the City of Toronto realized a gross gain on the restructuring and sale transaction of approximately $38.79 million, or if THESL does not believe this to be the case, please explain.
g) Please state whether THC, at any time, contemplated the early retirement of the Promissory Notes held by the City for the benefit of ratepayers. If not, please state why not.
h) Please explain whether the proposed dollar cost of Long-Term Debt is appropriate after having regard to this restructuring and sale transaction.
i) Please state whether or not, given this transaction, the approach outlined in the above reference, wherein THESL's promissory notes are written on the same terms as the parent debt, was followed in actual practice and in spirit and, if not, why not.
j) Given the transfer of corporate services from THC to THESL that has taken place in recent years, as outlined in Exh C1/Tab 2/Sch 1, including the treasury function, please state why it is still necessary for THESL to be charged the five basis point fee for administration referenced above.

6. DEFERRAL and VARIANCE ACCOUNTS

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

83) Ref: E J1/T1/S2, p.4

Re: Account 1592, it is stated that THESL wishes to clear a $3.3 million credit to customers. With respect to this proposal:

a) Please revise the deferral and variance account continuity schedule to include account 1592 as a group 2 account and enter all the relevant information for transaction, adjustments, etc. for all the relevant years.
b) Please describe each type of tax item that has been accounted for in account 1592.
c) Please provide the calculations that show how each item was determined and provide any pertinent supporting evidence.
d) Did the Applicant follow the guidance provided in FAQ July 2007? If not, please explain why not.
e) Please identify the account balance as of December 31, 2009 as per the 2009 audited financial statements. Please identify the account balance as of December 31, 2009 as per the April 2010 2.1.7 RRR filing to the Board. Please

provide a reconciliation if the balances provided in the above are not identical to each other and to the total amount shown on the continuity schedule.

f) Please complete the following table based on the previous answers. Add rows as required to complete the analysis in an informative manner, or if THESL considers that any of the rows are not applicable, please delete and provide an explanation. If THESL uses Excel to prepare the table, please submit the live Excel workbook.

Tax Item	$ Principal As of [December 31, 2009]
Large Corporation Tax grossed-up proxy from 2006 EDR application PILs model for the period from May 1, 2006 to April 30, 2007	
Large Corporation Tax from 2005 EDR application PILs model for the period from January 1, 2006 to April 30, 2006 (4 /12ths of approved grossed-up proxy) if not recorded in PILs account 1562	
Ontario Capital Tax rate decrease and increase in capital deduction for 2007	
Ontario Capital Tax rate decrease and increase in capital deduction for 2008	
Ontario Capital Tax rate decrease and increase in capital deduction for 2009	
Ontario Capital Tax rate decrease and increase in capital deduction for 2010	
Capital Cost Allowance class changes from 2006 EDR application for 2006	
Capital Cost Allowance class changes from 2006 EDR application for 2007	
Capital Cost Allowance class changes from 2006 EDR application for 2008	
Capital Cost Allowance class changes from 2006 EDR application for 2009	
Capital Cost Allowance class changes from 2006 EDR application for 2010	
Capital Cost Allowance class changes from any prior application not recorded above.	
Insert description of next item(s)	
Insert description of next item(s) and new rows if needed.	
Total	

84) Ref: E J1/T1/S2

THESL is requesting disposition of account 1508, sub-account IFRS costs, which include forecasted costs to the end of 2010. and is an unaudited balance. The usual practice for disposing of variance and deferral accounts is to use the most up-to-date audited balances, as supported by audited financial statements, plus forecasted carrying charges on those balances up to the start of the new rate year.

Please state why the Board should deviate from the usual practice of disposing only the audited balances.

85) Ref: E J1/T1/S2 – Carrying Charges

THESL has used the Board prescribed rates for calculating carrying charges for the period from Q1, 2008 to Q2, 2010, and indicated that it would be prepared to recalculate the carrying charges before rate finalization. The rates for Q3 and Q4 2010 are posted on the Board's website.

Please recalculate the carrying costs using the Board-approved carrying charge rates for Q3 and Q4, 2010, as posted on the Board's website, and recalculate the rate riders.

86) Ref: E J1/T1/S6 – Continuity Schedule, p.1 and E J1/T1/S2/Table 2

The total for account 1595 under the columns titled "Closing Principal Balance as of Dec.-31-09 Excl. Dec. 2008 balances" and "Closing Interest as of Dec.-31-09 Excluding Dec. 31, 2008 balances" is a $768,328 credit. However, the December 31, 2009 balance requested for disposition per Table 2 is a $500,000 credit.

Please reconcile these two numbers and state which is the one that is being requested for disposition in this proceeding and why?

87) Ref: E J1/T1/S2/p.8

Regarding the regulatory ratemaking treatment of stranded meter costs, some distributors have transferred the cost of stranded meters from Account 1860, Meters, to "Sub-account Stranded Meter Costs" of Account 1555, while in some cases distributors have left these costs in Account 1860. Depending on which treatment the applicant has chosen, please provide the information under the two scenarios (a. and b.) below, as applicable to THESL.

a. If the stranded meter costs were transferred to "Sub-account Stranded Meter Costs" of Account 1555, answer the following questions:
    i. Please describe the accounting treatment followed by THESL on stranded meter costs for financial accounting and reporting purposes.
    ii. Please provide the amount of the pooled residual net book value of the removed from service stranded meters, less any sale proceeds and contributed capital, which were transferred to this sub-account as of December 31, 2009.
    iii. Since transferring the removed stranded meter costs to the sub-account, was the recording of depreciation expenses continued in order to reduce the net book value through accumulated depreciation? If so, please provide the total depreciation expense amount for the period from the time the stranded meters were transferred to the sub-account to December 31, 2009.

iv. If no depreciation expenses were recorded to reduce the net book value of stranded meters through accumulated depreciation, please provide the total depreciation expense amount that would have been applicable for the period from the time the stranded meters were transferred to the sub-account to December 31, 2009.
v. Were carrying charges recorded for the stranded meter cost balances in the sub-account, and if so, please provide the total carrying charges recorded to December 31, 2009.
vi. Please provide the estimated amount of the pooled residual net book value of the removed from service meters, less any sale proceeds and contributed capital, at the time when smart meters will have been fully deployed (e.g., as of December 31, 2010). If the smart meters have been fully deployed, please provide the actual amount.
vii. Please describe how THESL intends to recover in rates stranded meter costs including the proposed accounting treatment, the proposed disposition period, and the associated bill impacts.
viii. In the outlined format of the table shown below (after b.), Summary of Stranded Meter Cost, please provide the data to derive the total "Residual Net Book Value" amounts for each year.

b. If the stranded meter costs remained recorded in Account 1860, Meters, please answer the following questions:
i. Please describe the accounting treatment followed by THESL on stranded meter costs for financial accounting and reporting purposes.
ii. Please provide the amount of the pooled residual net book value of removed from service stranded meters, less any sale proceeds and contributed capital as of December 31, 2009.
iii. Was the recording of depreciation expenses continued in order to reduce the net book value through accumulated depreciation? If so, provide the total depreciation expense amount for the period from the time the meters became stranded to December 31, 2009.
iv. If no depreciation expenses were recorded to reduce the net book value of stranded meters through accumulated depreciation, provide the total depreciation expense amount that would have been applicable for the period from the time the meters because stranded to December 31, 2009.
v. Please provide the estimated amount of the pooled residual net book value of the removed from service meters, less any sale proceeds and contributed capital, at the time when smart meters will have been fully deployed (e.g., as of December 31, 2010). If the smart meters have been fully deployed, please provide the actual amount.
vi. Please describe how THESL intends to recover in rates stranded meter costs including the proposed accounting treatment, the proposed disposition period, and the associated bill impacts.

vii. In the outlined format of the table shown below, Summary of Stranded Meter Cost, please provide the data to derive the total "Residual Net Book Value" amounts for each year.

Table x - Summary the Residual Net Book Value of Stranded Meter Costs

Year	Gross Asset (A)	Accumulated Amortization (B)	Net Asset (C = A–B)	Proceeds on Disposition (D)	Contributed Capital (E)	Residual Net Book Value (F=C-D-E)
2006						
2007						
2008						
2009						
2010 (1)						
Total						

(1) For 2010, please indicate whether the amounts provided are on a forecast or actual basis.

Ref: E J1/T1/S2/p9

On this page Account 1508 – HST Variance is discussed.

The PST and GST were harmonized effective July 1, 2010. Historically, unlike the GST, the PST was included as an OM&A expense and was also included in capital expenditures. Due to the harmonization of the PST and GST, regulated utilities may benefit from a reduction in OM&A expenses and capital expenditures on an actual basis.

a) Please state whether or not THESL has adjusted its Test Year revenue requirement to account for reductions to OM&A expense and capital expenditures that THESL may realize due to the implementation of the HST effective July 1, 2010. If yes, please identify separately the amounts for OM&A and capital and provide an explanation of how each of those amounts was derived. If no, please identify the amounts in OM&A expense and capital expenditures for the Test Year that were previously subject to PST and are now subject to HST.
b) The Board's decision on THESL's 2010 application established a deferral account and directed THESL to record the incremental input tax credits it receives on distribution revenue requirement items that were previously subject to PST and which become subject to HST. Tracking of these amounts would continue in the deferral account until the effective date of THESL's next cost of service rate order. Has THESL recorded any HST Input Tax Credits or other HST related items in PILs account 1592? If yes, please describe what has been recorded and provide supporting evidence showing how the tracking was done. If not, please explain why not.

88) Ref: E J1/T1/S2/AppA

Appendix A provides a breakdown of incremental IFRS costs.

a) Please confirm that the revenue requirement numbers for 2011 are based on CGAAP, and not IFRS accounting principles. If confirmed, please identify the fiscal year which THESL will begin reporting its (audited) actual results on an IFRS basis. If not confirmed, please provide a detailed revenue requirement impact statement comparing CGAAP with IFRS.
b) Please state whether or not THESL has undertaken, or plans to undertake a depreciation study related to IFRS implementation and if the latter when such a study would be undertaken. If the study has been undertaken, please state what the impacts are on the present application.
c) Please provide a detailed breakdown and explanation of each cost item in Appendix A.

7. COST ALLOCATION and RATE DESIGN

Issue 7.1 Is Toronto Hydro's cost allocation appropriate?

89) Ref: E L1/T2/S1/p10

a) Please explain the rationale for negative cost entries with respect to the cost of several categories of meters assigned to the Residential class
b) Please confirm that there are 34,568 meters used for the Residential class with a per-meter cost of $550, and explain why the cost for these meters is much larger than the majority of Residential meters. Please include a breakdown of these costs.

90) Ref: E L1/T2/S1/p11 and E K1/T4/S1

With respect to the first reference, the number of customers in the Intermediate class is 668, while in Table 1 of the second reference the number of customers is shown as 514. Similarly, for the Large Use class, the respective customer numbers are 102 and 47.

a) Please confirm that these two exhibits should show the same customers numbers, or if not please explain why not.
b) If the response to a) is that the two exhibits should show the same customer numbers, please identify which exhibit is correct and make the required changes to the other exhibit.
c) If the entries to the Cost Allocation model (the first reference) are correct, please also make any necessary changes to the rate design and revenue reconciliation exhibit (E M1/T4 /S1).

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

Issue 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?

Interrogatories to follow when evidence is filed.

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

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

91) Ref: E L1/T1/S1/p.1 and E L1/T2/S1/pp. 22-24

Please ensure that the revenue to cost ratios in Table 1 of the first reference are consistent for all classes with those on page 24 of the second reference – in particular for the "2010 Board-approved" ratios for the General Service 50-999 kW class and the Intermediate 1000-4999 kW classes.

With respect to the second reference, please provide a copy of Worksheet O1 that shows the column for the General Service 50-999 kW class.

Issue 7.6 Are the proposed Retail Transmission Service rates appropriate?

No interrogatories.

Issue 7.7 Are the proposed Distribution Loss Factors appropriate?

No interrogatories.

8. SMART METERS

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

Issue 8.2 Are the proposed 2011 smart metering costs appropriate?

92) Ref: E D1/ T8/ S7/pp.1-2 & E M1/T2/S2

On page 1, Table 1: "Metering Capital Investments Summary" shows that in 2011, $12.6 million has been included for smart metering.

On page 2, it is stated that this amount includes $1.2 million to complete the residential installations. Of the remaining cost, $10.8 million is allocated to complete the commercial meter installations. The balance of $0.6 million is to cover the cost of developing two elements of smart meter data collection, expanding Wide Area Network ("WAN") and optimization of Local Area Network ("LAN").

The second reference is THESL's proposed Tariff of Rates and Charges for May 1, 2011. It includes a smart meter rate adder of $0.68.

a) Please state why THESL did not apply in the present application to clear the balances in the smart meter deferral accounts for 2008 and 2009.

b) Please provide THESL's views as to whether or not its proposal to incorporate $12.6 million of smart metering costs into rate base on a prospective basis is in compliance with the Board's Smart Meter Guidelines (G-2008-0002). If THESL believes it is, please explain why. If THESL believes it isn't, please explain why the Board should consider THESL's proposed approach.

c) Please provide a breakdown of the proposed costs. Please confirm that the $12.8 million sought for recovery in the present application relates only to 2011 expenditures and does not include any cost recovery related to prior year expenditures not yet incorporated into rate base.

d) Please provide a revenue requirement calculation showing prospective smart metering costs including the forecast 2011 expenditure and costs for any subsequent years until the anticipated completion of THESL' smart meter installation program and any proposed offsets by smart meter funding collected through THESL's utility-specific funding adder. Please include an explanation as to why THESL is maintaining the $0.68 funding adder in its proposed 2011 tariff.

e) Please state why in light of THESL's proposal to incorporate 2011 smart meter costs in rate base it also proposes to continue collecting the smart meter funding adder of $0.68.

93) Ref: E D1/T8/Sh7/pp.4-5

It is stated on page 4 when discussing suite metering capital expenditure amounts included for 2011 that "In consideration of anticipated requests for THESL to provide such services in both new and existing condominium buildings, the forecasted capital spend is $2.6 million in 2011."

On page 5, Table 2: "Suite Meter Installations Completed" shows a 2011 forecast total of 5,215 suite meter installations.

a) Please state whether the meters to be installed are smart meters and, if so, why this amount should be included in capital expenditures and not recovered through the smart meter funding adder.

b) If the response to a) is yes, please state whether this smart meter capital expenditure is incremental to THESL's proposed smart meter capital expenditure of $12.6 million.

9. SMART GRID PLAN

Issue 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?

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

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

94) Ref: E G1/T1/S1/p.12

THESL's evidence indicates that twenty-one (21) sensor units and seven (7) aggregators are scheduled for installation in August 2010. The units will be free from the vendor for testing purposes.

a) Does THESL intend to purchase these power line monitoring units if testing is considered to be successful?

b) If the answer to part (a) is yes, please indicate the approximate capital and operating funds that would be requested and when such costs would be requested for inclusion in the revenue requirement.

95) Ref: E C1/T6/S1/p.10 and E G1/T1/S1/p.8

THESL indicates at the first reference above that the Feeder Investment Model (FIM) can be used to support business cases for other interventions that effect life-cycle cost, such as conversion to underground or some Smart Grid improvements.

a) Please state whether or not THESL has applied the FIM to the $2.68 million of feeder automation investments contemplated in Table 2: 2010 Smart Grid Projects of the second reference?
b) If so, how does THESL prioritize circuits chosen for feeder automation?
c) If THESL has not used FIM for this process, please explain.

96) Ref: E C1/T6/S1/p.5, E D1/T9/S8/p.1and E G1/T1/S1/p.1

At reference 1, THESL indicates that one of the emerging capital portfolios is Smart Grid.

At reference 2, THESL states that it plans to install a 4MW energy storage system at College municipal station in downtown Toronto. In reference to electric energy storage, THESL states at reference 2 that, "With the emergence of new storage technologies, this

option is poised to become an essential component of the electricity infrastructure, particularly in this modern era of smart grid and renewable energy generation."

THESL indicates that benefits of the battery system include, among other things:

- Support service restoration
- Help facilitate the integration of intermittent, renewable generation sources as well as,
- Electric transportation into the grid within the GEA framework.

At reference 3, THESL indicates that, "smart development is in direct alignment with the GEA, where [used] for the purposes of accommodating the use of emerging, innovative and energy-saving technologies and system control applications."

In the context of the benefits noted above, on what basis does THESL consider the $30 million "Energy Storage Project" under the umbrella of its business-as-usual capital programs (under Emerging Requirements) rather than for inclusion in its Smart Grid Plan, or in THESL's subsequent GEA Plan and/or distributed generation plan?