



PUBLIC INTEREST ADVOCACY CENTRE
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ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7

Tel: (613) 562-4002. Fax: (613) 562-0007. e-mail: piac@piac.ca. <http://www.piac.ca>

Michael Buonaguro
Counsel for VECC
(416) 767-1666

November 19, 2010

VIA MAIL and E-MAIL

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

Dear Ms. Walli:

Re: EB-2010-0142
NOTICE OF APPLICATION AND HEARING FOR AN ELECTRICITY
DISTRIBUTION RATE CHANGE
Toronto Hydro-Electric System Limited

Please find enclosed the interrogatories of VECC in the above noted proceeding.

Thank you.

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

**TORONTO HYDRO-ELECTRIC SYSTEM LIMITED (THESL)
2011 RATE APPLICATION (EB-2010-0142)**

VECC INTERROGATORIES

1. GENERAL

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

Q1 Reference: Exhibit R1 Tab 11 Schedule 2 EB-2009-0139, Exhibit A1 Tab 5 Schedule 1

- a) Explain why THESL has still not performed an independent shared services cost allocation study as ordered in EB-2007-0680, especially now that the reorganization of shared services is completed?
- b) In EB-2008-0139 the Board directed THESL to

Use Account 1508, Other Regulatory Assets, "Sub-account Transit city Program 2010 Deferred Capital Costs" to record any revenue requirement impact in 2010 of up to \$27.8 million of capital expense actually incurred related to THESL's proposed Transit City program (p. 44).
- c) Point to the evidence on details of the costs/balances.
- d) Are the costs in this account to be cleared in this proceeding? If so please provide the proposed disposition.

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

Q2 Reference: Exhibit B1 Tab 13 Schedule 1-Service Quality Measures

- a) With regard to Table 1 please add a column 10 with 2010 YTD values.
- b) Explain why, although above standard, Telephone Accessibility is not improving.
- c) Explain why Emergency Response is below standard in the last year reported (2009).
- d) If the 2010 YTD data show no improvement in either TA or ER then discuss in detail what measures are being taken to improve performance.

Q3 Reference: Exhibit B1 Tab 14 Schedule1

- a) With regard to Table 4 please add a column 10 with 2010 YTD values (SAIDI, SAIFI and CAIDI, without LOS and MEDs).
- b) Provide an analysis and assessment of trends in reliability.
- c) Indicate which parts of the system have the worst reliability, by providing the 2005- 2009 and 2010 YTD relevant SAIDI and CI indices for Transformers, underground and overhead. Discuss the results.
- d) Provide a summary of Momentary Interruptions by year 2005 – 2010. Discuss trends.

2. LOAD and REVENUE FORECAST

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

Q4 Reference: Exhibit C1 Tab 4 Schedule 1 Appendix C

- a) Provide a version of Tables 1-6 that includes the latest Conference Board Forecast (or other forecast) numbers in brackets under the as filed values.
- b) Indicate by annotating the Table rows which values will be updated prior to ADR and/or prior to the Draft Rate Order.
- c) Update the historical bridge and test year revenue forecast in Table 7 and insert a column to show the 2010 Board-approved values.
- d) Explain what are the main differences in 2010 YTD e.g. customer additions, TOU rates, CDM etc..

Q5 Reference: Exhibit C1 Tab 4 Schedule 2

- a) Provide a version of Table 1 that shows, under each entry, the CBC Toronto October 2010 Economic Indicators for 2010 and 2011.
- b) Is THESL planning to update its business planning assumptions based on the latest CBC forecast and if so, list which assumptions, specifically (such as housing starts).
- c) Provide a copy of the presentation of the 2011 Business Plan to the Board of Directors or in the alternative a list of all material changes in assumptions from this filing.
- d) Provide a copy of the Approval of the 2011 Business Plan.

Q6 References: Exhibit C2 Tab 1 Schedule 2 Appendix A, Exhibit C2 Tab 1 Schedule 5, EB-2009-0139 Exhibit R1 Tab 11 Schedule 13

- a) Provide a version of Appendix A that shows YTD and revised Forecast for 2010 (retain original Forecast).
- b) Update the 2011 forecast to reflect material changes in head count in the 2010 revised forecast update.
- c) Indicate if the changes in headcount are due to hiring or retirements.
- d) Provide data on retirements by category of employee from 2006- 2009 and 2010 YTD and forecast for 2010 and 2011.
- e) Compare to the 2010 forecast in the Tables provided in the third reference.

Q7 References: Exhibit C2 Tab 1 Schedule 5, EB-2008-0139 Exhibit R1 Tab 11 Schedule 14 parts b and c

- a) Provide a schedule that shows by month the 2011 hiring plan for union employees by level and the associated \$ impact on 2011 total compensation costs. Reconcile the total compensation cost to the amounts shown at lines 29- 31 of C2 Tab 1 Schedule 2 Appendix A.
- b) Provide a schedule that shows by month the hiring plan for non-union employees by level and the associated \$ impact on 2011 total compensation costs. Reconcile the total compensation cost to the amounts shown at lines 29 and 30 of C2 Tab1 Schedule 2 Appendix A.
- c) Update the 2010 hiring plan tables provided in the second reference to provide a comparison between forecast (per IRR 14) and actual.
- d) If delays in hiring occur in 2011 (as appears to be the case in 2008 and 2009) estimate the impact on total compensation of a reduction in 10 FTEs for non-union employees and a reduction of 10 FTEs in union employees. State clearly your timing assumptions.

Q8 Reference: Exhibit C2 Tab 2 Schedule 2 page 6

- a) Provide a breakdown of the 2011 capital expenditures at 28 Underwriters Road.

Q9 Reference: Exhibit B1 Tab 14 Schedule 1 page 15, Exhibit C2 Tab 3 Schedule 3 Page 3, EB-2009-0139 Exhibit R1 Tab 11 Schedule 7

- a) Provide the tree trimming statistics for 2008-2011 including annual contract costs, number of contracts and line km trimmed.
- b) According to the third reference, the contract with Davey Tree Services expires at the end of 2010. Has THESL tendered for replacement services? If so provide non-confidential information on # bidders, Successful bidder(s) and contract Price(s) and line km targets.
- c) Indicate if the O&M costs related to tree trimming for 2011 are based in the tender information. If not, please update the 2011 costs.

Q10 Reference: Exhibit K1 Tab 1 Schedule 1, page 1

- a) Please explain what the MVA values set out in Table 1 represent.

Q11 Reference: Exhibit K1 Tab 1 Schedule 1, page 3

- a) Please confirm that the 2009 values shown in Table 3 are actual purchases and not weather normalized purchases?

- b) Please confirm whether the 2010 Bridge Year Purchases shown in Table 3 are based on four months of actual sales or four months of actual sales that have been weather normalized. If required, please restate the 2010 Bridge Year values using four months of actual “weather normalized” loads.
- c) Please provide a schedule that sets out the for those months where 2010 actual data is available the following totals:
 - 2010 EDR Forecast
 - 2010 Actuals
 - 2010 Weather Normalized Purchases

Q12 Reference: Exhibit K1 Tab 1 Schedule 1 pages 5 and 6, Exhibit K1 Tab 2 Schedule 2

- a) Please provide a set of schedules that contrast the regression variables used for each customer class in the current Application with those used in previous applications.
- b) Did THESL test any models for the GS<50, GS>50-999, GS1000-4999 and Large User classes that included a measure of economic activity such as Provincial GDP or Local Employment levels? If yes, what were the results?
- c) If the response to part (b) is no, please explain why not. Please also provide the results of a model for each of these classes that includes local employment (as reported by Statistics Canada) as an independent variable.
- d) The trend line variables used in the various equations all have negative values. Given the equations do not include any variables reflecting economic activity, please comment on the likelihood that the coefficient for this trend variable is influenced by the recent economic down turn.

Q13 Reference: Exhibit K1 Tab 1 Schedule 1 page 9, Exhibit K1 Tab 4 Schedule 1 Table 1

- a) Please provide additional details as to how the forecast peak billing demand by class is established (e.g. precisely what historical data is used).
- b) Please provide the details of the trend line analysis used to project the 2011 customer count for Residential, GS<50, GS 50-999 and GS 1000-4999.
- c) Please provide the actual customer count for mid-year 2010 (if not already set out in Table 1).

Q14 Reference: Exhibit K1 Tab 6 Schedule 2 page 1

- a) Please provide a similar schedule for 2011 based on currently (2010) approved rates.

2.2 Is the proposed amount for 2011 other revenues appropriate?

Q15 Reference: Exhibit I1 Tab 1 Schedule 1

Gains from Sale of Utility Properties

THESL disposes of obsolete facilities and real estate on a periodic basis. In 2010, gains of \$5.5 million result from the unplanned disposal of THESL idle properties such as Godard, Combermer and Rivalsa.

- a) Provide the Board-Approved Other Revenue for 2010.
- b) How was the unplanned revenue from sale of properties treated for regulatory purposes in 2010 e.g. deferral account.
- c) How did ratepayers benefit from the sale of these properties?
- d) Provide an inventory (identification and estimated value) of other properties/real estate that are not used or useful for regulatory purposes in 2011.
- e) What regulatory treatment will be applied to these properties?

3. OPERATIONS, MAINTENANCE and ADMINISTRATION COSTS

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

Q16 References: Exhibit F1 Tab 1 Schedule 1 Table 2

- a) Provide a version of Table 2 that adds columns that show for 2010 Board-approved, YTD estimate, forecast and variance. Retain the as filed forecast entries in the last column (if different to current estimate).
- b) Perform/provide a minimum level analysis (Minimum and Maximum) on each component of the 2011 O&M expense budget. Provide the result in tabular form.
- c) Relate the results from the above to the requested increase in 2011 O&M Expenses (total \$13.7 million).

Q17 Reference: Exhibit F1 Tab 6 Schedule 4 page 5

- a) Provide the history of bad debt expense and the # of delinquent accounts 2008-2010 and the forecast for 2011.
- b) Indicate how many delinquent accounts were/are estimated to be put onto a[n] arrears management program.
- c) How many disconnections occurred in 2008, 2009 and forecast 2010. and 2011.
- d) Comment how amendments to the DSC and RSC have/will affect(ed) the forecast of delinquent accounts and disconnections.

Q18 Reference: Exhibit F2 Tab 1 Schedule 1

- a) Provide a version of Table 2 that adds columns that show for 2010 Board-approved, YTD estimate, forecast and variance. Retain the as filed forecast entries in the last column (if different to current estimate).
- b) Perform/provide a minimum level analysis (Minimum and Maximum) on each component of the 2011 A&G expense budget. Provide the result in tabular form.
- c) Relate the results from the above to the requested increase in 2011 A&G Expenses (total \$7.9 M).

Q19 Reference: Exhibit F2 Tab 5 Schedule 1 Table 2 Exhibit F2Tab 6 Schedule 1

- a) Provide an apples to apples comparison of Board-Approved 2009, 2010 and 2011 Finance A&G costs including breakdown of Internal THESL costs, costs paid to THC and totals.

- b) Provide much more detail on the apparent 2010-2011 increase in Finance A&G costs, including a schedule that shows Finance IFRS costs 2009-2011.
- c) For IFRS driven costs relate these to the IFRS compliance plan in Q1, Tab 1 and provide a table that shows a breakdown of IFRS driven costs (enterprise wide) from 2009-2011.
- d) With regard to credit facility provide 2010 YTD actual and forecast costs and explain in more detail why 2011 are significantly increased.
- e) With regard to customer deposits provide a table that shows the amounts forecast, actually paid out and the amount recovered in rates for the years 2006-2010 and forecast 2011 (\$0.8 million in RR).

Q20 Reference: Exhibit F2 Tab 10 Schedule 1 Table 4

- a) Provide in plain english an explanation why there is a big increase in ODP costs from 2010-2011- more employees to train, new programs etc.
- b) Is this a one shot increase or will the higher level be sustained into future years. Please discuss.

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

Q21 Reference: EB-2009-0139 Exhibit R1 Tab 11 Schedule 3 (part f and Appendix A), Exhibit C1 Tab 3 Schedule 1

Preamble

As described in Exhibit C1, Tab 3, Schedule 1, the balance of 33 staff members in Finance, Organizational Effectiveness, Legal Services and certain other areas will be transferred to THESL in 2010. Within the Finance area, the functions of corporate financial reporting, business planning, financial planning and reporting, corporate tax, and internal audit will move to THESL in 2010. Within the Organizational Effectiveness area, the functions of strategic direction and leadership will move to THESL in 2010. Within the Legal area, the functions of legal strategic direction, leadership and services will move to THESL in 2010. Within the Communications area, the functions of strategic direction, leadership and external communication will move to THESL in 2010. Lastly, within the EHS area, the functions of strategic and direction and leadership will move to THESL in 2010. Please see Appendix B of this Schedule reconciling the difference between the 2009 Bridge and 2010 costs.

- a) Provide a schedule that for 2009, 2010 and 2011 gives a comparison and reconciliation of Shared Services Costs and headcounts by each major service area and shows the transfer of services and staff from THC to THESL in 2010 and the costs and staff headcount for 2011.
- b) Compare the actual 2010 YTD estimate to the cost reduction forecast in Appendix A in EB-2009-0139, (\$0.95m) including headcounts and payroll reductions (\$0.91m).
- c) Discuss why the level of services purchased by THESL from THC in 2010 and 2011 will only reduce by less than 50% of the forecast (\$0.43m vs \$0.95 m).
- d) Provide an updated copy of Exhibit R1 Tab 11 Schedule 3 Appendix B for 2010 YTD and 2011.
- e) Provide a schedule that shows within THESL (compared to the 2009 base year) the 2010 estimate of *incremental* 2010 and 2011 O&M costs by department and category (Payroll and other) and offsetting revenues resulting from the transfer of Shared Services Functions into THESL 2011 costs.
- f) With regard to 2010 and 2011 Services purchased from THC provide a schedule that shows the continuity and costs of these services from 2006-2011.
- g) With regard to 2010 and 11 Services sold to THC provide a schedule that shows the continuity and costs of these services from 2006-2011.

Q22 Reference: Exhibit C1 Tab 2 Schedule 3- 1, Exhibit C1 Tab 3 Schedule 1 Appendix B

- a) Provide a summary continuity Schedule for the services and costs of services sold to THESI from 2006-2011.
- b) Reconcile the 2011 costs to the draft THESL/THESI service schedules.
- c) Provide explanations for any material changes in services or service levels from 2009 to 2010 and 2011.

4. CAPITAL EXPENDITURES and RATE BASE

4.1 Are the amounts proposed for Rate Base appropriate?

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

Q23 Reference: Exhibit D1 Tab 8 Schedule 8-1 Table 1

- a) Provide a version of Table 1 that separates non-discretionary and discretionary projects and costs in each component of the 2011 IT Capital portfolio.
- b) Perform a minimum level analysis on each component of the 2011 IT capital portfolio. Provide the result in tabular form.
- c) Relate the results above to the requested \$4M increase in 2011 IT capital.

Q24 Reference: Exhibit D1 Tab 3 Schedule 1 page 2

- a) Please confirm that the reference to the “Flat Rate Water Heater Exit Program” is synonymous with the “Flat Rate Water Heater Conversion Program” referred to in the EB-2009-0139 Application. If this assertion is incorrect, please describe the parameters and costs of the “Flat Rate Water Heater Exit Program”.

Q25 Reference: Exhibit D1 Tab 3 Schedule 2 page 6

Capital investment in poles and wires is expected to increase by \$322.2 million or 13.4 percent from \$2,412.9 million in 2009 to \$2735.1 million in 2011. The increase is primarily due to the need to rehabilitate poles to counter the worsening SAIFI trend, obsolete equipment and obsolete system designs that do not conform to the current standards. Additional information about these investments can be found in Exhibit D1, Tab 8, Schedule 1.

- a) THESL asserts that the increase in capital investment in poles and wires is due, in part, to obsolete equipment and obsolete system designs that do not conform to the current standards. Is it the case that, while obsolete in the sense that the equipment and designs could not be used in new projects, they are acceptable as grandfathered equipment and designs, or are they actually in violation of current standards to the extent that immediate replacement is required? Please discuss.
- b) In relation to the answer in part a) please quantify the spending on poles and wires that is driven solely by the obsolescence of the equipment and system design relative to the current standards, i.e. the equipment as designed and installed is, despite its obsolescence, working within acceptable parameters (relative to when it was designed and installed).

Q26 Reference: Exhibit D1 Tab 3 Schedule 2 page 7

The increase in equipment assets from \$149.0 million in 2009 to \$169.7 million in 2011 amounts to \$20.7 million or 13.9 percent and is mainly due to an increase in the fleet complement to support the capital work program and as part of the “Greening the Fleet” fleet replacement program.

- a) There appears to VECC to be no documentation in the filing providing a description and business case for the “Greening the Fleet” fleet replacement program. Please provide the documentation describing and setting out the business case for the “Greening the Fleet” fleet replacement program.

Q27 Reference: Exhibit D1 Tab 7 Schedule 1 page 8

THESL plans, designs and constructs distribution system assets in accordance with approved standards. The standards are developed by THESL to achieve the objectives of high public and employee safety, optimal reliability considering cost and to comply with the requirements of the Electrical Safety Authority (“ESA”).

- a) The excerpt initially suggests to VECC that THESL acts in accordance with approved standards that are externally developed and imposed on THESL; but then the excerpt goes on to state that THESL develops the standards to, in part, comply with the requirements of the ESA. Please describe the extent to which the standards internally developed by THESL reflect the requirements imposed on it by external authorities like the ESA, and the extent to which the objectives of high public and employee safety and optimal reliability cause THESL’s standards to exceed the requirements imposed by the ESA and other authorities. To the extent possible please discuss the cost of exceeding the requirements imposed on THESL by the ESA and other authorities.

Q28 Reference: Exhibit D1 Tab 9 Schedule 5-2 page 1

THESL can recover 100 percent of all relocation costs related to Transit City work, since the TTC is not a road authority as defined in the *Public Service Works on Highways Act*, R.S.O 1990, Chapter P.49.

- a) Please confirm that the above excerpt means that all relocation costs related to Transit City work in any period, including the test year, have a net cost of 0, such that Transit City work will never have a revenue requirement impact. If this assertion is incorrect, please describe the actual arrangement between THESL and the City with respect to capital contributions towards Transit City related work.

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

Q29 Reference: Exhibit K1 Tab 1 Schedule 2, Exhibit K1 Tab 8 Schedules 1 & 2

- a) The text in Tab 1 makes reference to the forecast wholesale electricity price being based on a weighted average of the forecast RPP rates and the HOEP plus Global Adjustment rates. However, Tab 8 only makes reference to the HOEP and Global Adjustment. Please reconcile.
- b) If not provided as part of the response to part (a) please indicate the portion of THESL's sales that are RPP vs. non-RPP.
- c) Please provide a schedule that sets out the details supporting the \$0.0725 / kWh price use for wholesale energy purchases for 2011.
- d) Please update the Cost of Power values used using the October 2010 RPP report.
- e) What is the basis for the 2011 rates used for Network Service, Line Connection and Transformer Connection in Tab 8?
- f) What is the basis for the H1 LV costs included for 2011?
- g) Please provide a schedule that shows the derivation of the "Transmission" portion (\$258.7 M) of the 2011 Cost of Power.

Q30 Reference: Exhibit J1 Tab 2 Schedule 4 -Working Capital Allowance, Exhibit D1 Tab 14 Schedule 1 Table 1

- a) Has THESL updated its lead lag study to reflect the GST/HST change that occurred in July 2009? If not why not.
- b) Provide a copy of the EB-2007-0680 approved lead lag study.
- c) Update the study to show changes since 2007 including the GST/HST change in 2009.
- d) Reconcile the result or explain the differences relative to Exhibit J1 Tab 2 Schedule 4.
- e) Update the 2011 WC allowance as necessary.

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?

Q31 Reference: Exhibit D1 Tab 8 Schedule 10 page 3

The condition of THESL assets was originally established based on an Asset Condition Assessment (ACA) performed by THESL in 2006. In 2009, an assessment was performed using the Health Index (HI) methodology applied within THESL's HI Calculator. This tool is used to derive and develop HI scores for distribution system assets. By comparing results from 2006, 2009 and equipment performance data, it was concluded that the current ACA process is significantly improved when compared to the process from 2006. This can be attributed to the use of refined formulas for determining an HI rating, improved data granularity and a larger pool of condition data from the field. HI calculations are consolidated within the application and concentrated efforts have been made to modify network asset inspection practices to include end-of-life condition information.

- a) Please confirm that the change in Asset Condition Assessment methodology from 2006 to 2009 as described on page 3 (excerpted above) was incorporated into the Asset Condition Assessment that underpinned the EB-2009-0139 Application. If this assertion is incorrect, please describe any material differences in methodology between the Asset Condition Assessment underpinning the EB-2009-0139 Application and the Asset Condition Assessment underpinning the current (EB-2010-0142) application.

Q32 Reference: Exhibit D1 Tab 8 Schedule 10 page 6 and Appendix A; EB-2009-0139, Exhibit D1 Tab 8 Schedule 10 Appendix A

1.6 Comparison to 2010-2019 Plan

This report can be considered a living document. THESL's capital plans depend on a number of factors, including (among other things) the economy, Ontario Energy Board direction, provincial legislation, current industry practice, analytical tools and availability of condition data. THESL is constantly gathering and analyzing new data, and as a result, detailed year-to-year plans will deviate to a certain degree based upon current conditions and special and/or unforeseen circumstances. Despite this, the long-term direction is expected to remain in alignment with this document. For the reasons outlined above, the ten year plan presented here represents current THESL's assessment of the distribution systems projected needs for the next decade. A comparison of the current ten year plan and the version filed in August 2009 is provided in Figure 1 below.

Figure 1 – Comparison of the new and old 10-year plan [omitted]

As shown above, the overall spending trend is similar to the previous plan. The relatively large spread between the 2012 investments illustrates the amount of spending required to 'catch up'

to the intended plan line. Deviations in individual portfolios will be explained throughout this document.

- a) The citation above suggests that, in comparing the current 2011-2020 Plan to the previously filed 2010-2019 Plan, while there will be deviation to a certain degree, the long term direction is expected to remain in alignment, and notes that the overall spending trend in the current plan is similar to the previous plan.

However, review of Appendix A to the current Exhibit D1 Tab 8 Schedule 10, the summary of the 2011 to 2020 Ten Year Plan, in comparison to the equivalent Appendix A from EB-2009-0139 (Exhibit D1 Tab 8 Schedule 10) shows that the 10 year proposed spending in the current 2011-2020 Plan is \$3,811.2M, compared to only \$3,295.1 in the previously filed 2010-2019 Plan. Specific to the proposed Sustaining Capital Expenditures, the current 2011-2020 Plan proposed spending is \$2,282.9M, compared to \$1,056.5M in the 2010-2019 Plan, a difference of \$1 Billion in sustaining capital investment alone. Please detail the cause(s) of the material changes between the two 10 Year Plans, with reference to the 22 different portfolios described in Appendix A from EB-2009-0139 (Exhibit D1 Tab 8 Schedule 10).

Q33 Reference: Exhibit D1 Tab 8 Schedule 10 page 11

To determine capital needs for existing distribution assets, in 2008, THESL introduced a risk-based approach to assist engineers in identifying the optimal intervention time for each asset based on asset condition, risk, criticality, and life-cycle costs of asset ownership. This methodology is referred to as the Feeder Investment Model (FIM) and has been used to identify some of the Underground Sustaining Capital projects that need to be executed [to] mitigate risk to our plant, staff and the public.

- a) Please confirm that the “risk-based approach” described on page 11 was used in developing the 10 Year Plan that was presented in EB-2009-0139. If that assertion is incorrect, please describe how the “risk based-approach” introduced in 2008 was incorporated into the Capital Plan underpinning the EB-2009-0139, and how it differs from the approach used in the Capital Plan underpinning the current (EB-2010-0142) application.

Q34 Reference: Exhibit D1 Tab 8 Schedule 10 page 12 and 16, figure 3 and Table 3

[Re Underground Direct Buried Cable] For practical reasons (planned outages, resource requirements, permits, and spending shock) it is not feasible to undertake this large investment within a single year. Therefore, THESL proposes to spread this spending over several years.

- a) Please provide the full definition of the acronym EOL as it is used in the 2011-2020 Electrical Distribution Capital Plan.

- b) Please provide a definition of the term “spending shock” as it was used by THESL in the development of its Capital Plan.
- c) The EOL assessment of THESL’s Underground Direct Buried Cable suggested a 2011 Capital Budget of approximately \$200M. However, THESL asserts, in consideration of planned outages, resource requirements, permits, and spending shock, the total proposed 2011 budget for this area of spending is \$62.5M. Please discuss and quantify the constraint that each of these factors represented. VECC is particularly interested in (but not exclusively so) how the concept of spending shock influenced THESL’s request for approved capital spending, and any thresholds against which THESL measures spending shock.

Q35 Reference: Exhibit C1 Tab 6 Schedule 1, Exhibit C1 Tab 4 Schedule 1, Exhibit F1 Tab 1 Schedule 2

The above three references describe THESL’s Asset Management Approach, Business Planning Process and Maintenance Approach, the products of which are illustrated in the application and summarized at Exhibit D1 Tab 7 Schedule 1 page 16 Table 2 (total Capital Budget of \$498M) Exhibit F1 Tab 1 S1 page 3 (total Distribution OM&A Budget of \$193.3M) and Exhibit F2 Tab 1 Schedule 1 page 2 Table 1 (total Administrative and General expenses of \$83.2M).

In EB-2009-0096 at Exhibit H Tab 7 Schedule 39 it was noted that during the course of Hydro One Inc. comparable planning process for its Distribution Rate application it identified what it referred to as a minimal level of capital and OM&A spending for each of its categories of spending, and was able to reproduce a comparison of the as filed budget and the determined minimal level spending considered as part of the budgeting and business planning process.

- a) In developing the as filed budgets summarized by Exhibit D1 Tab 7 Schedule 1 page 16 Table 2 (total Capital Budget of \$498M) Exhibit F1 Tab 1 S1 page 3 Table 2 (total Distribution OM&A Budget of \$193.3M) and Exhibit F2 Tab 1 Schedule 1 page 2 Table 1 (total Administrative and General expenses of \$83.2M), does THESL develop and consider in its planning process a level of spending for each (or any) of the portfolios within the Capital Budget, Distribution OM&A Budget and Administrative and General expenses areas similar or comparable to the minimum level spending developed by Hydro One Inc. and described in EB-2009-0096? We refer THESL to the cites within Exhibit H Tab 7 Schedule 39 in EB-2009-0096 for references to the concept behind Hydro One Inc.’s minimum level spending.
- b) To the extent that THESL does develop and consider a level of spending similar or comparable to the minimum level spending described by Hydro One Inc., please produce a table comparing that minimum level of spending to the applied for spending at the portfolio level of detail represented by Exhibit D1 Tab 7 Schedule 1 page 16 Table 2, Exhibit F1 Tab 1 S1 page 3 Table 2 and Exhibit F2 Tab 1 Schedule 1 page 2 Table 1 for

the test year, similar to the tables produced by Hydro One Inc. in EB-2009-0096 at Exhibit H Tab 7 Schedule 39 question a).

- c) If THESL does not develop minimum level spending (or comparable) budgets for consideration in its planning process, please confirm that THESL must necessarily be unable to advise the Board whether, in the face of reductions by the Board to the applied for budgets, THESL is either able or unable to operate in the test year within the bounds of acceptable risk without first reviewing the impacts of its approved budgets from scratch.

5. CAPITAL STRUCTURE AND COST OF CAPITAL

5.2 Is the proposed Long-Term Debt Rate appropriate?

Q36 Reference: Exhibit E1 Tab 1 Schedule 1, Exhibit E1Tab 3 Schedule 2, Exhibit E1 Tab 4 Schedule 2

- a) Has THESL issued medium or long-term debt in addition to that shown in Table 2 (first ref) since June 1, 2010? If so, please update Table 2 to reflect the additions.
- b) Update the principle amounts, term, rates and spreads shown in Table 3 to reflect the most recent forecasts and estimates available Reconcile to Exhibit E1 Tab 4 Schedule 2 lines 7, 8.
- c) For 2010 debt issues (replacement) provide a schedule that compares the Board-Approved principle amount, term, coupon rate versus the actual. Provide the annual carrying costs for Board Approved and Actual issues.
- d) Confirm that SEC and VECC argued in EB-2008-0139 that the effective coupon rate for the \$200M Debenture should be lower than THESL's forecast.

6. DEFERRAL and VARIANCE ACCOUNTS

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

Q37 Reference: Exhibit J1 Tab 1 Schedule 2 page 6, Exhibit J1 Tab 1 Schedule 2 Appendix A

- a) Please provide a breakdown/details of the IFRS costs in Account 1508 as of September 30, 2010.
- b) Relate these costs to the IFRS Compliance Work Plan Q1, Tab 1.

7. COST ALLOCATION and RATE DESIGN

7.1 Is Toronto Hydro's cost allocation appropriate?

Q38 Reference: Exhibit L1 Tab 1 Schedule 1, Exhibit L1 Tab 2 Schedule 1, Exhibit J1 Tab 1 Schedule 5, page 8 (RRWF)

- a) Please provide an electronic copy of the Cost Allocation model in Tab 2.
- b) With respect to Sheet O1 (Tab 2/Schedule 1, page 22), please explain the how the Distribution Revenues by Class (totaling \$589,908,703) were determined.
- c) If not done as follows, please re-calculate Revenue to Cost ratios using Distribution Revenues by Class calculated in the following manner:
 - Determine 2011 revenues base on current rates.
 - Escalate the revenue for each class by the same percentage such that total revenues equal that required for 2011.
- d) With respect to Sheet O1 (Tab 2/Schedule 1, page 22), please explain basis for the direct allocation of cost to the GS 1000-4999 and Large User Classes.
- e) With respect to Sheet O1 (Tab 2/Schedule 1, page 22), please reconcile the values used here for the following costs with those reported in the RRWF (Exhibit J1):
 - Total Revenue/Revenue Requirement – Note: there appears to be a difference even after allowing for the Transformer Ownership Allowance.
- f) Please confirm that the Board's Cost Allocation Model does not include directly allocated OM&A and Net Fixed Asset respectively in the allocation of G&A costs and General Plant. If so, please comment on the appropriateness of this exclusion.
- g) Please explain why THESL believes it is appropriate to move revenue to cost ratios that are within the Board's target ranges incrementally towards unity (per L1/1/1, page 3).
- h) Please re-do the Cost Allocation model in accordance with the Board's filing guidelines by:
 - Removing the revenues associated with the TOA from the Distribution Revenues used for each customer class
 - Removing the TOA as a cost.

Q39 Reference: Exhibit L1 Tab 1 Schedule 1, Exhibit L1 Tab 2 Schedule 1, Sheet I7.1

- a) For the Residential and GS<50 classes please explain the basis for the numbers assigned to each type of meter and, in doing so, identify which types of meters are considered to be “smart meters”.

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

Q40 Reference: Exhibit M1 Tab 1 Schedule 1, page 5

a) Please provide a schedule that sets out the “ceiling rate” for each customer class as determined by the Cost Allocation model and compare with:

- The 2010 approved customer service charge.
- The 2011 service charge – based on maintaining the 2010 fixed variable split.
- The proposed 2011 service charge.

Q41 Reference: Exhibit K1 Tab 8 Schedule 2

a) How are the forecast 2011 Hydro One Networks LV charges recovered from rate payers?
There does not appear to be a separate LV rate adder.

7.6 Are the proposed Retail Transmission Service rates appropriate?

Q42 Reference: Exhibit N1/Tab 2/Schedule 1, page 2

- a) On August 20, 2010 the OEB published a RTSR Work Form that was to be completed for all 2011 Rate Applications. Please provide a completed copy of the Work Form.
- b) Please provide a schedule that contrasts THESL's proposed 2011 RTSRs with the results from the 2011 RTSR Work Form.

8. SMART METERS

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

8.2 Are the proposed 2011 smart metering costs appropriate?

Q43 Reference: Exhibit J1 Tab 1 Schedule 2

Preamble: Accounts 1555 and 1556 – Smart Meter Accounts.

THESL currently records Smart Meter Capex and Opex expenditures to these accounts. THESL intends to seek clearance of these accounts once the Smart Meter Installation Program has been completed, according to the OEB's guidance.

- a) Confirm that SM Guideline G-2008-0002 has not superseded the OEB Filing Requirements for Smart Meter Investment Plans, October 26, 2006
- b) Confirm that paragraph 7 of the Filing Requirements requires as follows:

Specifically, and in as much detail as possible, please provide the following information for your planned implementation of the SMIP:
 - the number of meters installed by class and by year, both in absolute terms and as a percentage of the class;
 - the capital expenditures and amortization by class and by year;
 - the operating expenses by class and by year;
 - the effect of the SMIP on the level of the allowance for PILs.
- c) Did THESL File its SMIP in accordance with the Filing Guidelines? Please elaborate
- d) Has THESL kept records by class as required by the Filing Guidelines and are accounts 1556 and 1555 segregated by rate class? Please elaborate.
- e) Provide a schedule that gives a breakdown of the 2006 - 2010 SM Capital Costs between the Residential and GS<50kw classes.
- f) Provide a breakdown of the O&M costs for meters installed in 2006 - 2010 between the Residential and GS<50kw classes.
- g) Provide the details of the balances in Accounts 1555 and 1556 **by class**. Include the carrying cost calculation(s).

9. SMART GRID PLAN

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

Q44 Reference: Exhibit G1 Tab 1 Schedule 1 page 1, lines 4-10.

This Exhibit presents THESL's plans for development of the smart grid in keeping with the *Green Energy and Green Economy Act, 2009* ("GEA"), proclaimed in force on September 9, 2009. THESL seeks cost recovery of its plans for the 2011 Test Year, and provides a directional view into its plans for the period 2012 to 2015. THESL expects to file smart grid evidence in accordance with the Board's March 25, 2010 *Filing Requirements: Distribution System Plans – Filing under Deemed Conditions of Licence*, 10 (EB-2009-0397), as part of its cost of service application for rates to be effective in 2012.

- a) Is it THESL's position that Exhibit G1 Tab 1 Schedule 1 is a "Green Energy Act Plan" (a "GEA Plan") filed pursuant to the Board's March 25, 2010 *Filing Requirements: Distribution System Plans – Filing under Deemed Conditions of Licence*, 10 (EB-2009-0397) (the "GEA Filing Requirements") at pages 4, 5 and 6 of those requirements? If not, please describe the regulatory framework within which THESL asserts the Board has the authority to review and approve the expenditures described in Exhibit G1 Tab 1 Schedule 1.

Q45 Reference: Exhibit G1 Tab 1 Schedule 1 page 3 Table 1.

- a) Please confirm that the all of the applied for *Green Energy Act* related spending for 2011 is summarized in Table 1, amounting to a total of \$2.4M in capital spending and \$550,000 in OM&A spending.
- b) Please confirm that all of the spending in Table 1 is Smart Grid related as defined by the *Electricity Act, 1998* S.O. 1998, C. 15, Schedule A, s. 1 (1.3).

Q46 Reference: Exhibit G1 Tab 2 Schedule 1 page 1 lines 12-26 and page 2 Table 1:

SMART GRID DEMONSTRATION PROJECTS

Smart grid demonstration projects include activities where THESL seeks to acquire knowledge and experience and develop technology, all of which can be integrated into its current system to demonstrate the functionalities and benefits of the smart grid. 2011 plans will build upon 2010 projects and further demonstrate an integrated smart grid.

Through active participation in conferences, academic communities and industry groups, including the Ontario Smart Grid Forum, THESL has undertaken a prudent review of other demonstration projects to ensure that its demonstrations are well coordinated with those of other stakeholders for information sharing, and that any projects undertaken are concrete

investments that will lead to the advancement of knowledge and lessons learned in the implementation of a smart grid. THESL has taken care to ensure that the initiatives will not bring about unnecessary duplication of efforts, but will contribute towards generating immediate benefits to the planning and operation of the system. Table 1 lists smart grid demonstration projects and associated expenditures.

- a) With respect to the three Demonstration Projects listed on Table 1, please disclose any other demonstration projects encountered in the prudent review described on page 1 that involve similar technology, and describe the basis upon which THESL determined that proceeding with the three Demonstration Projects would not bring about unnecessary duplication.

Q47 Reference: Exhibit G1 Tab 2 Schedule 1 pages 3-5 regarding the Electric Vehicle Charging Infrastructure Project

- a) Please describe in more detail how the Electric Vehicle Charging Infrastructure Project is a Smart Grid related project in accordance with the definition in the *Electricity Act, 1998* S.O. 1998, C. 15, Schedule A, s. 1 (1.3), as opposed to simply a new source of load?