

## **INTERROGATORIES FOR TORONTO HYDRO-ELECTRIC SYSTEM LIMITED**

**EB-2010-0142**

**FROM THE CONSUMERS COUNCIL OF CANADA**

### **GENERAL**

#### **Issue 1.2 – Are Toronto Hydro’s economic and business planning assumptions for 2011 appropriate?**

1. (Ex. C1/T4/S1/Appendix A) Please provide the following documents that relate to THESL’s 2011 rate year:
  - The strategic goals and objectives that were approved by THESL’s Board of Directors;
  - The Business plan including detailed budget for the upcoming year (2011) and long-term projections for the following 4 years;
  - The 5-year business plan approved by THESL’s Board of Directors;
  - All materials presented to HON’s Board of Directors when seeking approval of the 2011 rate filing.
2. (Ex. C1/T4/S1/Appendix A, p. 6) Please explain the relative roles and responsibilities of the President of THESL and the President and CEO of THC.
3. (Ex. C1/T4/S2) Please explain how the economic indicators presented are used to derive the various components of the revenue requirement.

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

4. Please explain what efforts THESL has made, or is making, to make electricity more affordable for its customers (productivity initiatives, cost reduction strategies etc.)
5. (Ex. C1/T5/S1) THESL has provided a copy of its Conditions of Service. Please indicate how, if at all, the conditions have changed since THESL's last rate proceeding. To what extent, if any, have those changes impacted the 2011 revenue requirement?

#### **Issue 1.5 - When would it be appropriate for Toronto Hydro to commence filing rate applications under an incentive mechanism**

6. The Board is seeking input on whether it would be appropriate for THESL to commence rate filings under incentive regulation? Please provide THESL's position on whether this year represents an appropriate base case for a future IRM application. If THESL is not of the view that it should be subject to incentive regulation please explain why.

### **LOAD AND REVENUE FORECAST**

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

7. (Ex. I1/T1/S1/p. 2) Please provide a schedule in the same format as Table 1 - Other Revenue which includes 2007-2010 Board approved and actual levels.

## **OPERATIONS, MAINTENANCE AND ADMINISTRATION COSTS**

### **Issue 3.1 - Are the overall levels of 2011 OM&A budgets appropriate?**

8. (Ex D1/T3/S1) Please recast Table 1 - Distribution Expense Summary to include Board approved numbers for 2008-2010. In addition, please provide actual and board approved numbers for 2006 and 2007.

### **Issue 3.2 Is the proposed level of 2011 Shared Services and Other OM&A spending appropriate?**

9. (Ex. C/T2/S3-10) The evidence includes draft Service Agreements between THESL and its affiliates. What is the process for finalizing these agreements? When does THESL expect them to be signed?
10. (Ex. C1/T3/S1/Appendix A) For 2010 THESL is paying THC \$1.66 million for "Governance" and \$1.18 million in 2011. Please provide, in detail, a breakdown of these amounts for the two years and explain exactly what services are being provided.
11. (Ex C1/T3/S1/Appendix B) THESL is providing \$1.17 million in services to TH Energy – Please explain in detail exactly what services THESL provides to TH Energy.

### **Issue 3.4 - Are the 2011 Human Resources related costs appropriate?**

12. (Ex. C2/T1/S2/Appendix A) Please recast Table 1 - Employee Compensation to include Board approved numbers for 2008, 2009 and 2010.
13. (Ex C2/T1/S3/p. 1) Please explain, in detail why Pension Costs are increasing from \$6.6 million in 2010 to \$8.3 million on 2011. What is THESL's current expectation as to what actual pension costs will be for 2010?
14. (Ex C2/T1/S5/p. 3) Please provide a table setting out actual and forecast retirements for the years 2006-2010. What is the total number of retirements in 2010 that have actually occurred? Does the 2011 revenue requirement assume a total of 64 retirements in 2010?
15. (EX. F1/T1/S1p. 3) Please recast Table 2 and include Board approved levels for 2008-2010. Also, please provide an updated number for 2010 based on year to date actuals.
16. (Ex. F1/T2/S1) Please provide, in detail the reason for the significant increase in the Fleet and Equipment Services Budget.
17. (Ex. F1/T6/S1/p. 6) Please provide a detailed budget for each of the following cost categories: Meter Services, Billing, Remittance/MDM, and Collections.
18. (Ex. F2/T1/S1/p. 2) Please recast Table 1 to include Board approved numbers for 2008-2010. Please update the 2010 numbers to include year to date actuals.

19. (Ex. F2/T4/S1) Please explain how R&D tax credits are included in the 2011 revenue requirement.
20. (Ex F2/T6/S1) Please provide a detailed budget for Regulatory Affairs for each year 2007-2011. Please include all internal and external costs and explain how these costs are recovered. Please include Board approved amounts.
21. (Ex. F2/T7/S1) Please provide a detailed budget for Legal Services for 2007-2011. Please include Board approved amounts.

**Issue 3.5 - Is Toronto's depreciation expense appropriate?**

22. ( Ex. C1/T4/S1/Appendix C) THESL is using the amortization rates outlined in the 2006 EDR Handbook. Why has THESL not undertaken an updated depreciation study? Would THESL be prepared to undertake a depreciation study? If not, why not?

**CAPITAL EXPENDITURES AND RATE BASE**

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

23. (Ex. C1/T6/S1/p. 8) The evidence indicates that in 2009 THESL undertook a third-party audit of the ACA plan. Please provide a copy of that audit.
24. (Ex. C2/T2/S2/p. 20) THESL has plans to spend \$11.9 million in 2010 on Facilities and an additional \$13.2 million in 2011. What has been spent to date in 2010. Of the projects planned please identify those that could be deferred until 2012 or later.
25. (Ex C2/T3/S3/p. 9) External Services - Civil Construction costs are increasing by \$41.3 million in 2010 and \$32.2 million in 2011. Please provide a detailed explanation for each year as to why these costs are more than doubling relative to historical levels. Please explain the methodology used to forecast these costs.
26. (Ex D1/T1/S1/p. 3) Please provide an updated opening balance for 2011 based on THESL's most recent forecast of capital additions for 2010. Please explain the assumptions around the updated calculation.
27. (Ex D1/T3/S2/p. 3) Please recast Table 3 to include Board approved levels for 2009 and 2010.
28. (Ex D1/T7/S1/p. 16) Please recast Table 2 - Summary of Capital Investments to include Board approved numbers for 2008-2010. In addition, please provide the most updated forecast of the 2010 capital budget.
29. (Ex. D1/T7/S1/p. 16) Please indicate the estimated impact on the revenue requirement of a \$10 million reduction in the 2011 capital budget. Please indicate the impact assuming a \$50 million reduction in the 2010 capital budget.

30. (Ex. D1/T7/S1/p. 16) If the Board were to reduce THESL's capital budget to \$350 million how would THESL go about implementing that reduction? Please identify all projects that could potentially be deferred until 2012 or beyond.
31. (Ex D1/T7/S1/p. 16) THESL is increasing its Capital Budget from \$205 million in 2008 to \$498 million in 2011. Please explain, in detail how THESL has the capacity to ramp up its capital spending in such a significant way.
32. (Ex. D1/T7/S1) For 2010 please provide a detailed list of projects over that have been deferred to 2011 or beyond and explain the reason for the deferral.
33. (Ex. D1/T8/S10) Please provide the 2009-2019 Electrical Distribution Capital Plan.
34. (Ex. E1/T6/S1) DBRS states that it "expects capital investment to average approximately \$300 million per year through 2011." Please reconcile this with THESL's plans to spend \$498 million on 2011. How will this increased spending potentially affect the its rating reports

## **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?**

35. (Ex. E1) Please explain THESL's dividend policy with the City of Toronto.
36. (Ex. E1) Does THESL engage in discussions with its shareholder regarding the specific elements of its rate application. If not, why not? if so, please provide all materials provided to the City of Toronto regarding THESL's 2011 rate application.

## **COST ALLOCATION AND RATE DESIGN**

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

37. (Ex. M1/T1/S1/p. 2) The residential fixed charge is increasing from \$18.25 to \$20.95 per month. Please provide a detailed rationale for the change. Does THESL intend to communicate the rationale for this increase to its customers? Has THESL undertaken any research regarding consumer acceptability of this change? If not, why not?
38. (Ex. M1/T1/S1/p. 2) Why does THESL regard it necessary to move the 2011 residential revenue to cost ratio to 92%?

## **SMART METERS**

### **Issue 8.2 - Are the proposed 2011 smart metering costs appropriate?**

39. (D1/T8/S7/p. 2) Please provide one schedule setting out the total expenditures, by year, both capital and operating, that have been spent on the smart meter program since its inception. Please differentiate between residential and others. This will include, but not be limited to:
1. Total metering costs - both capital and operating costs
  2. Total network costs (AMRC and WAN)
  3. Total AMCC costs
  4. Total costs related to MDM/R
  5. Costs of any pilots
  6. Cost for customer communication and education
  7. Costs for incremental functionality
  8. Any other costs considered part of the smart metering program
40. In the same format, please provide the forecast costs for 2010 and 2011. In addition, please provide a schedule setting out the annual recovery of smart meter costs from THESL's customers to date.
41. (D1/T8/S7/p. 2) Please identify all costs related to THESL's MDM/R. Please provide a business case for these expenditures. Please explain how these costs are to be recovered. Please explain why THESL has chosen to develop its own MDM/R when it has been required to utilize the MDM/R developed by the IESO. To what extent is THESL seeking to recover costs from its customers related to the IESO MDM/R?
42. (D1/T8/S7) Has THESL done any type of cost-benefit for its smart meter implementation plan? If not, why not? Would THESL be prepared to undertake such a study? If not, why not?

## **SMART GRID PLAN**

### **Issue 9.2 - Has Toronto Hydro appropriately addressed the Smart Grid Plan expenditures in the context of its overall Capital and OM&A budgets?**

43. (Ex. G1/T1/S1/p. 3) Please provide all of the relevant business cases for THESL's smart grid projects. Please explain how the budgets for these projects were derived.
44. (Ex. G1/T1/S1/p. 8) Please provide an updated budget for THESL's 2010 smart grid projects based on actuals spent to date.