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BY E-MAIL

January 18, 2011

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

Dear Ms. Walli:

Re: 2011 Electricity Distribution Rate Application for Toronto Hydro-Electric System Limited
Board Staff Technical Conference Questions
Board File No: EB-2010-0142

Please find the attached Board staff technical conference questions 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 Technical Conference Questions
2011 Electricity Distribution Rates
Toronto Hydro-Electric System Limited
EB-2010-0142

1. GENERAL

1) <u>Ref: Board Staff Interrogatory #1</u>

This interrogatory asked whether following publication of the Notice of Application, the applicant received any letters of comment. THESL responded that it did not. However on December 1, 2010, the City of Toronto sent a letter to the Board, copied to THESL, discussing its concerns with the proposed revenue to cost ratios for streetlighting service. The letter stated that THESL had agreed to meet with city staff to explain its methodologies and rationale.

Please provide an update as to the status of this matter.

2) <u>Ref: Board Staff Interrogatory #2</u>

This interrogatory requested that THESL identify any rates and charges included in its conditions of service and if there were any such rates and charges, to explain whether in THESL's view, these rates and charges should be included on its tariff sheet.

In its response, THESL identified a number of such rates and charges producing revenue of $10.15 million in 2009.

In explaining why these rates and charges were not incorporated on the tariff sheet, THESL referenced the Electricity Distribution Rate Handbook, which permitted LDCs to apply a charge or a rate to a customer without approval of the Board if the charge or rate is "either (i) a charge for a specific customer related to a cost recovery for the provision of one-time services, or (ii) a general customer charge that is a flow-through of third party costs."

a) Appendix A of THESL's response lists the Conditions of Service Rates and Charges. Each of the listed charges mention fees which do not appear to be customer specific, or a flow through of third party charges. Please discuss why THESL believes these charges meet the Electricity Distribution Rate Handbook criteria it has outlined.

b) Table 1 shows "Revenue from Conditions of Service Rates and Charges" for the 2006 to 2011 period. Please explain why this revenue is forecast to drop from the 2009 Actual level of $10.15 million to the 2011 Test year level of $7.9 million.

3) Ref: Board Staff Interrogatory #3

This interrogatory relates to the work that Navigant Consulting is undertaking for THESL.

With reference to the table provided on page 4 of the response to this interrogatory, please confirm that the schedule outlined is for the year 2010. If this is not the case, please state which year it represents. If it is for 2010, please state whether this work was completed on schedule and, if not, please provide the revised schedule for completion.

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

4) Ref: Board Staff Interrogatory #6

This interrogatory asked THESL whether or not its Electricity Infrastructure Reliability Performance Indicators, specifically SAIFI, SAIDI and CAIDI, were broken down into more disaggregated levels of its service area (e.g. Old City of Toronto, Scarborough, etc) and if THESL did undertake such breakdowns, the extent of the disaggregation.

THESL responded that it disaggregated its Reliability Performance Indicators to the feeder level only.

Please expand on what is meant by this statement and whether or not the referenced level of disaggregation would permit THESL to provide these indicators for more disaggregated levels of its service territory such as the Old City of Toronto or Scarborough. If THESL can do this type of disaggregation, please state whether or not THESL could make more disaggregated statistics available. If THESL cannot do this, please explain why not.

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

5) <u>Ref: Board Staff Interrogatory #10a and b</u>

In response to part a of this interrogatory, THESL stated that the trend variable was developed as follows:

> As the first step, class historic loads were analysed on an annual and monthly basis. Based on the analysis, determinations were made on the customer class loads that had been showing a declining trend (residential, GS<50 kW, GS 1-5 MW and Large Users), and which of them appeared to be stable (GS 50-1000 kWh, Street Lighting, USL). Then, based on the load behaviour, a number of linear time trend variables were generated for each customer class. Trend variables were distinguished and defined by the month when a decline started to take place.

a) Please explain in greater detail how the linear time trend variables were generated, specifically discussing:

   i) How much of the trend variable is driven by conservation efforts?
   ii) How much of the trend variable is attributed to the economic downturn?
   iii) Please state whether THESL believes that the trend variable adequately accounts for any load reductions due to the CDM targets issued by the Board on November 12, 2010.
   iv) Please provide historic and total system load (actual and weather-normalized up to the 2010 test year as shown in Figure 1 (K1/T1/S1 p. 2) in two scenarios based on regression calculations, one inclusive of the trend variable and one exclusive of the trend variable.
   v) Please provide a regression model and load forecast excluding the trend variable but including both an economic and a CDM variable.

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

6) Ref: Board staff Interrogatory #11c and 14d

In response to Board Staff interrogatory #11c, THESL stated that the annual average sales from Merchandise and Jobbing for the historical years have been $11.5 million with related costs of $8.5 million for an annual average net gain of $3 million.
In response to Board Staff interrogatory 14d, THESL stated that net revenue from merchandise and jobbing is expected to be zero.

Please provide further explanation as to what is included in merchandise and jobbing revenue and why THESL believes that the forecasted amount of zero for the 2011 test year is justified, given an annual average net gain of $3 million in the historical years.

7) Ref: Board Staff Interrogatory #14a

The original evidence showed no other revenue from the sale of scrap metal for the 2010 bridge year as well as the 2011 test year. In response to Board staff interrogatory #14, THESL stated that actual sales as of September 30, 2010 are $2.2 million. Please discuss why THESL believes that that the forecasted amount of zero for the 2011 test year is justified in light of the September 30, 2010 actuals.

3. OPERATIONS, MAINTENANCE and ADMINISTRATION COSTS

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

8) Ref: Board Staff Interrogatory #16

This interrogatory asked for a breakdown of the changes in the 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.

In its response, THESL provided an itemized breakdown of the referenced 2010 and 2011 amounts.

Please provide a brief explanation for the changes in each of the line items in the breakdown contained in the response.

9) Ref: Board Staff Interrogatory #30

This interrogatory requested a breakdown of THESL's regulatory costs in the format of Appendix 2-H of the Filing Requirements.
THESL's original response filed December 6, 2010 included an amount in the category "Operating expenses associated with Staff resources allocated to regulatory matters" of $350,000 for the 2011 Test year.

THESL filed a revised response to this interrogatory on December 20, 2010 which showed a revised amount for this category of $1,326,778 and the explanation that "The revised (highlighted) cells now include payroll costs for Regulatory Applications & Compliance and Regulatory Policy & Relations Staff only."

Please provide a more detailed explanation for this change including why this amount has increased significantly relative to the December 6th response and which payroll costs were included in the original response.

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?

10) Ref: Board Staff Interrogatory #41

This interrogatory noted that the *EDA Weekly* of October 20, 2010 had 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 interrogatory further noted that the information on this web site rated THC's financial benefits for employees as "above-average" and other benefits as "exceptional" and asked THESL to state why it was 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 and, if not, to please explain why not.

THESL's response stated that THESL itself did not state that it offers "above-average" and "exceptional" benefits and that this characterization was related to the editorial perspective that ELUTA had taken in its article.

Please state whether or not THESL is in agreement with ELUTA's characterization of its benefits. If yes, please discuss 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. If THESL is not in agreement with ELUTA's characterization, please state how THESL would characterize these benefits. Please comment specifically on whether or not THESL believes these benefits could be reduced and if not, why not.

4. CAPITAL EXPENDITURES and RATE BASE

Issue 4.1 Are the amounts proposed for Rate Base appropriate?

11) **<u>Ref: Board Staff Interrogatory #59</u>**

In the continuity schedule provided by THESL the Applicant shows a depreciation rate of 25% for accounts 1920 and 1921. The EDR Handbook, Appendix B, provides a depreciation rate of 20% for account 1920 - Computer equipment: hardware. Please explain why THESL is using the 25% rate and discuss whether customer information system (CIS) assets are included in these accounts.

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

12) **<u>Ref: Board Staff Interrogatory #59 & CCC Interrogatory #26</u>**

In the first reference, THESL provided updated Fixed Asset Continuity schedules as per Appendix 2-B of the Filing Requirements. These show an opening balance of $4,205.6 million for the 2011 test year. In the second reference THESL stated that "the updated fixed assets opening balance for 2011, based on THESL's most recent forecast of capital additions for 2010 is $4,183.5 million". Please reconcile these two statements and provide an updated Fixed Asset Continuity schedule for the 2011 test year, if applicable.

Sustaining Capital Expenditures

13) **<u>Ref: Board Staff Interrogatory #67</u>**

This interrogatory asked THESL to provide an itemized breakdown of Underground Rehabilitation capital expenditures for the past five historical years, the bridge year and the test year.

In its response, THESL provided aggregate figures, but did not provide the requested itemized breakdown. Please provide the requested itemized breakdown, or an explanation as to why THESL is unable to do so.

14) Ref: Board Staff Interrogatory #68

In response to Board staff interrogatory #68, THESL provided a breakdown of overhead capital expenditures. The category 'Other' increased by $5.5million or 51.9% in the 2011 test year over the 2010 bridge year. Please provide a further explanation of what is included in this category and the reasons for this increase.

15) Ref: Board Staff Interrogatory #69

In the itemized breakdown of network capital expenditures THESL shows capital spending for this category of between $4.7 and $5.5 million between 2008 and 2010. In the 2011 test year, an increase to $15.1 million, or a $9.6 million or 174 percent increase over the 2010 bridge year is shown. Please provide an explanation for this increase, including an explanation as to what is included in the category 'Other' and an explanation of the 200 percent increase for this particular category.

16) Ref: Board Staff Interrogatory #59 & #62

In the first reference, THESL provided a Fixed Asset Continuity Schedule for the years 2009 through 2011. Account 1996 Hydro One S/S Contribution shows a zero balance in cost as well as accumulated depreciation for 2011.

In the second reference, THESL shows capital contributions to HONI in the amount of $15.0 million to be included in the THESL Capital Budget.

a) Please explain the origin and nature of account 1996.
b) Please reconcile the contribution shown in the continuity schedule provided in response to Board Staff interrogatory #59 and the contributions shown in the capital budget summary provided in response to Board staff interrogatory #62.

17) Board Staff Interrogatory #70a

In its response to Board staff Interrogatory #70a, THESL stated that the capital contribution enters rate base. THESL further stated that the capital contribution to Hydro One will be amortized over 25 years.

Please provide further explanation as to why cost recovery of capital contribution prior to the asset being used and useful should be allowed.

Information Technology

18) Ref: Board Staff Interrogatory #73 and EP Interrogatory #42

In the first reference THESL stated that a capital expenditure of $1.1 million for a Smart Grid initiative shown as IT Program Cost "is not incremental to the Smart Grid Plan, but is included in the $2.4 million capital expenditure as described under Exhibit G1/T1/S1" (see table 1 below).

Table 1: Smart Grid Projects for 2011

	2011 Test	
Project	**Capital ($000s)**	**Operating ($000s)**
Energy Storage	1,100	
Electric Vehicle Charging Infrastructure	600	
Active Demand Response	700	
Studies and Planning Exercises		500
Education and Training		50
Total Business Funding Required	2,400	550

In the second reference, THESL describes the $1.1 million Energy Storage project in G1/T2/S1 as "a demonstration project for new advances in technology, including state-of-the art lithium-ion and lithium-polymer battery systems….In contrast, the $30.0 million Energy Storage System in Exhibit D1/T9/S8 incorporates 4MW capacity at a downtown station using commercially available sodium-sulphur battery technology to support grid reliability".

a) Please confirm that THESL is not seeking cost recovery for the $30 million 4MW Energy Storage Project in 2011.
b) Please provide further explanation as to whether the $1.1 million cost listed as "Energy Storage" in the above table is related to the "IT Program Cost" as discussed in response to Board staff IRR #73.
    i) If that is not the case, please provide further explanation and a table showing source of the cost related to the $1.1 million in IT Program Cost. (i.e. Energy Storage, EV Charging Infrastructure, and Active Demand Response).
    ii) If yes, please state what is the IT component of this project.

Emerging Requirements

19) Ref: Board Staff Interrogatory #77

In response to Board Staff interrogatory #77 THESL states that:

> Hydro One will be providing the 115 kV supply connection between their John x Esplanade transmission cable circuits and the THESL-owned 115kV switchgear at the proposed Bremner TS…The estimated capital contribution to Hydro One will be required for Hydro One to carry out design and installation of the 115kV cable circuit connection between their John x Esplanade circuits and the proposed Bremner TS…THESL will be exploring carrying out this work itself, after considering regulatory and cost issues. The issues include the classification of the transmission line work and the costs of Hydro One relative to independent contractors for the same.

a) Please confirm that THESL is not planning to include capital contributions to Hydro One for this project in the 2011 rate base.
b) Please elaborate on what steps have been taken at this point to assist in the determination as to whether Hydro One or independent contractors for THESL will be contracted to do this work.
c) Please state if THESL has received any cost estimates for this work from Hydro One and/or independent contractors.
   i) If no, why not.
   ii) If yes, please provide a copy of the estimates.
d) Please confirm that in the case where THESL decides to subcontract the building of the 115kV supply connection to a party other than Hydro One, capital contributions to Hydro One for this project will not be required in the future.

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?

20) Ref: Board Staff Interrogatory #84

This interrogatory discusses disposition of IFRS costs contained in account 1508.

ExhJ1/Tab1/Sch2/Appendix A provides a breakdown of these costs. Please provide a more detailed breakdown and explanation of these costs.

21) Ref: Board Staff Interrogatory #87

This interrogatory related to the regulatory ratemaking treatment of stranded meter costs.

The Hydro One Brampton 2011 cost of service application (EB-2010-0132) is currently in the submission phase. Board staff filed its submission on January 14, 2011. With respect to the treatment for stranded meters, staff submitted that since smart meter programs are nearing completion, the Board should consider whether approved estimated total costs related to the stranded meters be removed from rate base (and Account 1860, Meters) and tracked in "Sub-account Stranded Meter Costs" of Account 1555 for recovery. The associated recoveries from the separate rate rider would be recorded in this sub-account to draw down the balance in the sub-account. The approved estimate of stranded meter costs was to be trued-up to actual costs, recorded in the sub-account, and submitted for review in the distributor's next cost of service application.

Please provide THESL's view on a similar accounting treatment for its stranded meters.

22) Ref: Board Staff Interrogatory #88

This interrogatory discusses THESL's treatment of HST.

In its response to part a), THESL states that its budget was not developed by subtracting an amount from a "PST-based" budget, and therefore, there is no way to identify an amount for OM&A or capital that has been "saved."

In its response to part b), THESL states that it "has been recording amounts into the HST deferral account. The revenue requirement impact of the Tax harmonization has been estimated based on PST that has been historically paid. On this basis an estimate of the "savings" beginning July 1, 2010 has been derived and the related impact to customers has been recorded in the deferral account."

Please reconcile these two responses, stating why if THESL is able to record an estimate of the HST savings in the deferral account beginning July 1, 2010, it is not able to also identify an amount for OM&A or capital that may be saved for the test year.

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?

23) Ref: Board Staff Interrogatory #93

In its response to Board Staff interrogatory #93, THESL stated that "THESL's smart meter rollout will be complete in 2010", and "THESL takes the view that post-rollout smart meter activities are part of the core business of the utility and do not represent extraordinary undertakings."

In the application Exhibit D1/T7/S1 p.7, THESL states that it expects to have substantially completed the smart meter program by the end of 2010 with less than three percent remaining for 2011.

a) Please provide a status report on the smart meter initiative as of December 31, 2010.
b) Please include the following information as per the Board's Smart Meter Guidelines (G-2008-0002) for 2011 smart meter asset costs that are sought to be approved on a final basis in this application:

- capital and operating unit cost per installed smart meter and in total for:
    - procurement and installation of the components of the AMI system
    - customer information system
    - incremental operating and maintenance activities
    - changes to ancillary systems