

April 18, 2011

BY COURIER (2 COPIES) AND EMAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
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Dear Ms. Walli:

**Re: Pollution Probe – Written Argument
EB-2010-0142 – Toronto Hydro – 2011 Rates**

Pursuant to the Board's oral direction during the hearing, please find enclosed Pollution Probe's written argument for this proceeding.

Yours truly,



Basil Alexander

Encl.

cc: Applicant and Intervenors by email per Appendix A to *Procedural Order No. 1*

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O.
1998, c. 15, Schedule B;

AND IN THE MATTER OF an Application by Toronto Hydro-
Electric System Limited for an order approving just and reasonable
distribution rates and other charges for electricity distribution to be
effective May 1, 2011 (the "Toronto Hydro 2011 Rates Application").

WRITTEN ARGUMENT

on behalf of POLLUTION PROBE

April 18, 2011

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Introduction

Pollution Probe's submissions are limited to two issues:

1. Elimination of Toronto Hydro's variance account for line losses; and
2. Support of Toronto Hydro's electric vehicle infrastructure pilot project.

Each issue is discussed in turn below.

Elimination of Toronto Hydro's Variance Account for Line Losses

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

Pollution Probe submits that Toronto Hydro's request to continue the variance account for line losses should be denied (thereby eliminating the variance account).

In 2009, the electricity losses of Toronto Hydro's distribution system were equivalent to 3.9% of its delivery volumes, and thus cost its customers \$73 million.¹

However, as a result of Toronto Hydro's variance account for distribution system losses, Toronto Hydro does not have a financial incentive to implement operational measures to reduce its losses. In addition, the variance account diminishes its financial incentive to make capital investments to reduce its losses.² Such actions and investments are within Toronto Hydro's control, and Mr. McLorg detailed many of them during the hearing.³ If a variance account were not present, there would also be an incentive for other programs that reduce losses, such as demand responses programs or facilitating small-scale combined heat and power plants.⁴

Pollution Probe submits that Toronto Hydro should always have an incentive to reduce its costs of delivering electricity. This would include reducing lost energy within the distribution system, thus increasing overall energy efficiency within the system (which would also be in accordance with the underlying intent of the government's conservation policies).⁵ Therefore, an electricity losses variance account should only be appropriate if it is necessary to shield the utility from unacceptable financial risks. Pollution Probe submits that this is not the case here, particularly given the small magnitude of the variances.

¹ Transcript, Vol. 1 (March 29, 2011), pgs. 162, 163.

² Transcript, Vol. 1 (March 29, 2011), pg. 167.

³ Transcript, Vol. 1 (March 29, 2011), pgs. 172-175.

⁴ Transcript, Vol. 1 (March 29, 2011), pgs. 175 & 178.

⁵ Transcript, Vol. 1 (March 29, 2011) pgs. 164-166, 167; See also Exhibit KH1.10, Tabs 2 & 3.

For example, between March 2005 and December 2008, the electricity losses variance account accumulated a credit of \$265,000 or \$70,666 per year.⁶ Further, between December 2008 and December 2010, the account accumulated an additional debit of \$5,596 or \$2,798 per year.⁷ In other words, the magnitude of the variance is relatively small. Given Toronto Hydro's size and history, Pollution Probe submits that it should not need a variance account to insulate it from variances of this magnitude. In fact, there are other factors (such as weather or economy) that cause significant variations for which Toronto Hydro does not have variance accounts for,⁸ which Pollution Probe submits are of a far greater potential magnitude than the amounts associated with line losses.

Pollution Probe also submits the context has changed since the Board's previous decision in Toronto Hydro's 2008-10 rates case. For example, the Board noted as part of that decision that

The Board is generally concerned about line losses and encourages utilities to address this matter in a cost effective way. In that regard[,] the Board has commenced an initiative in January 2008 to better understand this issue. In the Board's view[,] it would not be appropriate for the Board to direct a different regulatory treatment for the Applicant than for the sector as a whole by eliminating the provision for a true-up.

However, while this issue was investigated as part of the rate design initiative (EB-2007-0031), that project did not get to the recommendation stage as the Board "decided to defer completion of the rate design project while staff conducts more research and expands the ability to model rate impacts."⁹ Further, Pollution Probe notes that there have been no updates to the Board's website regarding this initiative for over 2 years. Pollution Probe thus submits that this issue should not be now used as reason to continue Toronto Hydro's variance account for line losses.

Further, as the Board is aware, Ontario's largest electric distribution utility, Hydro One, does **not** have an electricity losses variance account. Pollution Probe thus submits that managing line losses is an inherent part of a distributor's role and function, and it does not amount to a potential "side business" needing complicated funding formulas or a different regulatory treatment.

Pollution Probe thus submits that Toronto Hydro's request to continue of its variance account for electricity losses should be denied.

⁶ Transcript, Vol. 1 (March 29, 2011), pg. 168, 169.

⁷ Transcript, Vol. 1 (March 29, 2011), pg. 169-170; Response to Undertaking No. JH1.5 (Exhibit T1, Tab 1, Schedule 5).

⁸ Transcript, Vol. 1 (March 29, 2011), pg. 182

⁹ Board website for "Rate Design for Recovery of Electricity Distribution Costs (EB-2007-0031)". Available online at <http://www.oeb.gov.on.ca/OEB/Industry/Regulatory+Proceedings/Policy+Initiatives+and+Consultations/Rate+Design+for+Electricity+Distributors>.

Support of Toronto Hydro's Electric Vehicle Infrastructure Pilot Project.

Pollution Probe supports Toronto Hydro's electric vehicle infrastructure pilot project, and it should accordingly be approved as part of this application.

Given the new nature of this field, it is important to gain an understanding of the potential role and impact of electric vehicles. For example, the nature of electric vehicle use is currently unknown. As well, unlike most current large electric loads (which are usually stationary), electric vehicles instead represent loads that are both substantial and mobile. In order for Toronto Hydro to support this new technology while maintaining consistent service levels for the broader market, it is crucial that Toronto Hydro (and others) gain a better understanding of how the demands on the local distribution grid could change as electric vehicle use increases.

Pollution Probe thus submits that Toronto Hydro's electric vehicle infrastructure project will increase an understanding of electric vehicle use, charging patterns, and their impact on Toronto Hydro's grid, and it should accordingly be approved as part of this application.

Costs

Pollution Probe requests that it be awarded 100% of its reasonable costs of participating in this proceeding.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

April 18, 2011


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