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October 12, 2011

BY EMAIL & COURIER

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge St, Suite 2701
Toronto ON M4P 1E4

Dear Ms. Walli:

Board File No. EB-2011-0144
Toronto Hydro-Electric System Limited – 2012-2014 Cost of Service
Energy Probe – Preliminary Issue Interrogatories

Pursuant to Procedural Order No. 1, issued by the Board on October 4, 2011, please find attached the Preliminary Issue Interrogatories from Energy Probe Research Foundation (Energy Probe) in the EB-2011-0144 proceeding.

Should you require additional information, please do not hesitate to contact me.

Yours truly,

David S. MacIntosh
Case Manager

cc: Glen Winn, Toronto Hydro-Electric System Limited (By email)
Mark Rodger, Borden Ladner Gervais LLP (By email)
John Vellone, Borden Ladner Gervais LLP (By email)
David Spence, Consultant to Energy Probe (By email)
Randy Aiken, Consultant to Energy Probe (By email)
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EB-2011-0144

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 rates and other charges for electricity distribution to be effective May 1, 2012, May 1, 203 and May 1, 2014.

INTERROGATORIES OF
ENERGY PROBE RESEARCH FOUNDATION
("ENERGY PROBE")

PRELIMINARY ISSUE

October 12, 2011

TORONTO HYDRO-ELECTRIC SYSTEM LIMITED
2012, 2013 & 2013 RATES REBASING CASE
EB-2011-0144

ENERGY PROBE RESEARCH FOUNDATION
INTERROGATORIES

Interrogatory # 1

Ref: Exhibit A1, Tab 1, Schedule 2, Appendix A, page 4

In respect of depreciation, the example on page 4 of Appendix A of a pole installed for $100 in 1960 and depreciated over 50 years yields the original investment but does not provide enough funds to replace the pole at current cost of $800. THESL's analysis does not account for the interest income that would be generated over the 50-year period if the depreciation collected in rates were invested until the asset needed replacing.

In that case, does THESL agree that the shortfall between the original $100 cost of the pole and the current $800 cost would be overstated? If not, please explain why.

Interrogatory #2

Ref: Exhibit A1, Tab 1, Schedule 2, Appendix A, page 5

The referenced evidence at line 18 states that lenders will refuse to lend as the debt:equity ratio approaches 1:1. This seems to say that a utility with a capital structure equally divided between debt and equity would face reluctant lenders.

a) **Is this understanding of the statement correct?**

b) **Please provide any research or reports that support the statement.**

c) **What is Toronto Hydro's capital structure?**

d) **Is Toronto Hydro currently facing reluctant lenders for capital financing? If yes, please provide examples.**

Interrogatory #3

Ref: Exhibit A1, Tab 1, Schedule 2

Does THESL anticipate a time in the near future when IRM might apply to its rate setting? If yes, please provide a forecast of when that might occur. If no, please explain how long THESL will continue to apply for COS rate setting?

Interrogatory #4

Ref: Exhibit A1, Tab 1, Schedule 2

Does THESL consider that both CAPEX and OPEX must be settled by the Board in cost of service applications? If yes, please explain why operating expenditures cannot be determined by an IRM.

Interrogatory #5

Ref: Exhibit A1, Tab 1, Schedule 2

On page 6 of the exhibit THESL provides three major factors at lines 18-22 that drove the need for annual rebasing in 2010. For each of these factors, please provide a forecast of when conditions for THESL would be such that annual rebasing would not be necessary.

Interrogatory # 6

Ref: Exhibit A1, Tab 1, Schedule 2

On page 19, at lines 19-26, THESL discusses the variability of OM&A costs and notes that different OM&A expenditures vary in "their ability to be accurately predicted". Please provide an analysis of which OM&A expenses can be accurately predicted and which cannot.

Interrogatory # 7

Ref: Exhibit A1, Tab 1, Schedule 2

On page 19, at lines 25-26, THESL notes that "any difference between actual and forecast OM&A costs as being at the shareholder's risk". Please provide an analysis for the past 5 years showing how much THESL's shareholder has had to make up for OM&A expenditures that exceeded Board approved levels.

Interrogatory # 8

Ref: Exhibit A1, Tab 1, Schedule 2

On page 22 THESL discusses the probable PCI value and concludes at lines 15-17 that "if actual inflation causes the inflation factor to rise, any increase in revenue requirement caused by the increased inflation factor would likely be offset, or more than offset, by an increase in nominal costs".

a) **Is it THESL's position that the stretch factor intended to capture improved productivity is not attainable?**

b) **Is it THESL's position that its costs are likely to increase faster than inflation? If so, please comment on the reasons.**

Interrogatory # 9

Ref: Exhibit A1, Tab 1, Schedule 2, page 22

a) **Please confirm that the GDP-IPI inflation rate has been trending higher since the beginning of 2010.**

b) **Please provide the GDP-IPI inflation rates for the each quarter from the first quarter of 2010 to the second quarter of 2011.**

c) **What is the additional revenue generated, taking into account the productivity and stretch factor of -1.32%, if the GDP-IPI inflation rate is 1.5%, 2.0% and 2.5%?**

Interrogatory # 10

Ref: Exhibit A1, Tab 1, Schedule 2, pages 23 & 24 &
Exhibit D1, Tab 8, Schedule 1 &
Exhibit D1, Tab 6, Schedule 5

The CAPEX figures used in Table 1 in Exhibit A1, Tab 2, Schedule 2 reflect the figures shown in Table 1 of Exhibit D1, Tab 8, Schedule 1, which is labeled "Summary of Capital Budget". Please reconcile the figures shown 2012 through 2014 with the additions to gross assets shown in Tables 5, 6 & 7 in Exhibit D1, Tab 6, Schedule 5. Which set of CAPEX figures are actually included in rate base for each of 2012 through 2014?

Interrogatory # 11

Ref: Exhibit A1, Tab 1, Schedule 2, Table 1

Are any of the proposed capital expenditures shown in Table 1 discretionary for 2012, 2013 or 2014? If yes, please provide a table that shows for each of 2012, 2013 and 2014 the total amount of capital expenditures that would be added to rate base each year and the corresponding discretionary and non-discretionary components of the additions.

Interrogatory # 12

Ref: Exhibit A1, Tab 1, Schedule 2, pages 30-33

Please provide a list of capital projects, along with their capital cost, scheduled to be closed to rate base in each of 2012, 2013 and 2014 that THESL believes would be eligible for inclusion in the Incremental Capital Module ("ICM") for each of those years.

Interrogatory # 13

Ref: Exhibit A1, Tab 1, Schedule 2

a) **Using the Board approved 2011 rate base ($2,298.2 million) and depreciation expense ($138.8 million), as referenced on page 8, along with the growth factor of 0.46% as referenced on page 23, and a GDP-IPI of 2.0% that results in a PCI of 0.68%, please calculate the 2012 Threshold Value of the Board's ICM formula.**

b) **Based on the response above and the Board approved depreciation expense for 2011, please calculate the resulting dollar CAPEX level associated with materiality threshold.**

c) **For comparison purposes, please provide responses to (a) and (b) above assuming a GDP-IPI of 2.5% in place of the 2.0%.**

Interrogatory # 14

Ref: Exhibit A1, Tab 1, Schedule 2, page 25

a) **Please provide a table that shows for 2008 through 2014 the actual and forecasted levels of compensation for each year, along with a break out of the amount charged to OM&A and the amount capitalized.**

b) **Please confirm that THESL has assumed a 3% increase in payroll costs in each of 2012, 2013 and 2014 to reflect general inflation.**

c) **Please show the impact on the figures in the table provided in response to part (a) if the 3% increase in payroll costs was reduced to 2% in each year.**

d) **Please show the impact on the figures in the table provided in response to part (a) if the 3% increase in payroll costs was reduced to 1% in each year.**

Interrogatory # 15

Ref: Exhibit A1, Tab 1, Schedule 2, Table 5

Based on the bridge year forecast, what is the forecasted ROE for 2011?

Interrogatory # 16

Ref: Exhibit A1, Tab 1, Schedule 2, page 1

The evidence states that THESL believes that at present, there are essentially two alternative forms of regulation: the Third Generation Incentive Regulation Mechanism ("IRM") and Cost of Service Regulation ("COS").

Did THESL consider any other form of regulation other than the above methodologies? If yes, please provide details and explain why those methodologies were rejected. If not, please explain why not.

Interrogatory # 17

Ref: Exhibit A1, Tab 1, Schedule 2

On page 33, at lines 21-25, THESL concludes that its understanding of the Board's position on the Incremental Capital Module is "that the ICM is not intended for, and would not be approved for, the type of capital program that THESL has conducted for several years and proposes to continue".

If the Board was prepared to apply the ICM to THESL's capital program, would THESL be agreeable to using that mechanism rather than needing a cost of service review for rebasing each year?

Interrogatory # 18

Ref: Exhibit A1, Tab 1, Schedule 2, page 1 &
Exhibit O1, Tab 1, Schedule 1-1

Consider the following alternative form of regulation. Assume the Board approves the use of the Third Generation Incentive Regulation Mechanism including the use of the Incremental Capital Module ("ICM") where the incremental capital was all of the Board approved capital spending in the year in excess of the materiality threshold, as calculated above in Interrogatory # 5b (using a GDP-IPI of 2.0%).

a) For 2012, please calculate the revenue requirement following the guidelines in section 2.2 of Chapter 3 of the Filing Requirements for Transmission and Distribution Applications dated June 22, 2011 assuming the Board approves the capital expenditures as proposed by THESL.

b) Please calculate the rate rider associated with the revenue requirement calculated in part (a) above.

c) Assuming a GDP-IPI of 2.0% and the rate rider calculated in (b) above, please provide tables in the same format and level of detail as shown in Exhibit O1, Tab 1, Schedule 1-1 for 2012.