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October 14, 2011

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: Toronto Hydro-Electric System Limited – 2011 Electricity Distribution Rate Application (EB-2011-0144)

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

Yours truly,

Michael Buonaguro
Counsel for VECC
Encl.

INFORMATION REQUEST ROUND	Preliminary IRs
TO	Toronto Hydro-Electric System Limited
DATE	October 14, 2011
APPLICATION NAME	2012 Electricity Distribution Rates

1.0 Reference: EB-2010-0142, Transcript Volume 1, page 12, lines 12-23; Exhibit A1/Tab1/Schedule 2:

Preamble:

MR. McLORG: Mr. Quesnelle, if I may add, without venturing into the legal area at all, one point of clarification that may go to the counsel's question, and that is that when we brought this application, it was certainly not with the intention of it being considered as a rebasing application in an IRM context.

And when we made all of our proposals, we were, you know, eventually aware of the fact that this was an issue. But I guess it's clear, just as a statement of position, that we did not frame this as a rebasing application, and we did frame it in contemplation of being continued to be allowed to file on a cost-of-service basis.

Reference: EB-2010-0142, Transcript Volume 2, pages 66 (line 16) to 67 (line 23):

MS. HARE: So I really view this as two separate issues, and I will give you and Mr. Sardana, Mr. Couillard, one last chance to explain to me why I don't say this properly.

One is what the IRM formula is, which I understand your position that it needs to be different than third generation IRM. That's fine.

My question was: Why isn't 2011 a good base? Your answer was, basically, because you settled. Well, that is no different than every other utility in the province that either comes forward to a rate case and gets a decision, or settles.

So your revenue requirement was reviewed. You settled on it. Why isn't that a good base, is my question?

MR. McLORG: Well, I think this is a good base with respect to the 2011 revenue requirement.

I would, of course, note that THESL did not file the current application as a rebasing application. It is not that we dispute the appropriateness of the --

MS. HARE: What's the difference? If it is rebasing, then you jack it up? Like, what's the difference? You filed your costs and your revenues, what you need to operate, what your revenues are. What's the difference if it is a rebasing year or just a one-year?

MR. McLORG: Well, the difference is that the consequence of it being considered a rebasing application, to be followed in subsequent years by the application of the price cap adjustment, is that in the following years the revenue requirement couldn't grow in the way that we feel we have documented with our long-term capital plan and our explanation of the need to spend in excess of depreciation in capital expenditures.

So our concern doesn't revolve around this year. Our concern revolves around what would happen next year and in subsequent years.

MS. HARE: Thank you.

a) The oral evidence in EB-2010-0142 and at Exhibit A1/Tab1/Schedule 2, page 12 (lines 1 through 7) suggests that THESL would seek different rates in a cost of service application for a test year that is to form the base year for a 3rd generation IRM term than the rates it would seek for the same test year that was to be followed by successive cost of service applications. Please confirm that this properly summarizes THESL's position; if it does, please describe in what ways THESL's 2011 rate application would have been materially different had THESL framed it as a cost of service application that was intended to form the base year for a 3rd generation IRM term.

b) Assuming THESL's position was confirmed to be properly summarized in part a) to this interrogatory, please confirm whether the rates in any of the three years in this application have been applied for on the basis that all or any of them can form the base year for a successive 3rd generation IRM term? If so please specify which years. If not, please identify how the rates requested in this application would be materially different if THESL were to recast them in contemplation of subsequent 3rd generation IRM based rates?

2.0 Reference: Exhibit A1 Tab 1 Schedule 2 pages 27 (line 26) to page 28 (line 12) including Table 5

a) Table 5 sets out the implications when the 3rd generation IRM, based on THESL's assumptions, are applied to THESL's rates, including the projected actual ROE assuming THESL were to maintain the Base Distribution Revenue Requirement embedded in the application. However THESL goes on to assert that it would not be possible for it to undertake the proposed expenditures and investments without the corresponding revenue requirement.

Accordingly VECC understands THESL to be asserting that Table 5 is purely hypothetical. Please redraft Table 5 based on THESL's projected actual expenditures and investments if, in fact, 3rd generation IRM (using THESL's assumptions) is imposed on THESL for the years 2012-2014. If THESL cannot do this, please explain why, given the strong indications from the Board that the imposition of 3rd generation IRM rates is a possibility for THESL in the years 2012-2014 that THESL has not planned for that contingency.

3.0 Reference: Exhibit A1 Tab 1 Schedule 2 page 24 Table 1
Exhibit A1 Tab 1 Schedule 2 page 28 Table 5
Exhibit A1 Tab 1 Schedule 2 page 30 lines 16-19
Exhibit A1 Tab 1 Schedule 2 page 33 lines 21-25
Exhibit D1, Tab 8, Schedule 1, page 5, Table 1

On the basis of the Board's statements in the Supplementary Report and the EB-2008-0187 Decision, together with the character of the ICM expenditures in the applications where use of the ICM was permitted, THESL understands it to be the Board's position 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.

a) Please redraft Tables 1 and 5 on the basis that "the type of capital program that THESL has conducted for several years and proposes to continue" qualifies for the use of the ICM. Please do so using two different scenarios:

1. A scenario in which all of THESL's Capital Budget qualifies for the ICM (for illustrative purposes), and

2. A scenario within which only those parts of the Capital Program relating to the asserted need to "invest substantially in THESL's aging and, in many cases failing, distribution infrastructure" to "both restore acceptable levels of service in areas experiencing unacceptably poor reliability, and to replace end of life equipment where the risk of failure is high". Please describe any assumptions THESL makes, in accordance with the above description, with respect to the portions of the capital program set out in Exhibit D1, Tab 8, Schedule 1, page 5, Table 1 that qualify for ICM treatment in this scenario.

Please separately include the calculation of the ICM in each case.

4.0 Reference: Exhibit I1, Tab 1, Schedule 1 page 8 lines 2-4

Preamble: THESL disposes of obsolete facilities and real estate on a periodic basis. In 2010, gains of $3.7 million resulted from the unplanned disposal of THESL idle properties such as Godard, Combermere and Rivalda.

a) Please estimate the value of "obsolete facilities and real estate" owned by THESL, and therefore potentially available to it to offset revenue requirement during the potential IRM years of 2012, 2013 and 2014.

5.0 Reference: A1/Tab1/Sch1/pgs. 1- 5

a) Please explain why three years (versus 1, 2 or 4) was chosen for the proposed rates?

b) Please explain why THESL's proposal to make future year adjustments due to rate base variation from forecast is not symmetrical (i.e. if actual rate base exceeds forecast rate base by more than 2% a review is held, but if falls below forecast by more than 2% no review is held).

c) Is THESL's proposal that it be subject to a cost of service hearing if in future years the actual rate base is higher than 2% of forecasted rate base?

6.0 Reference A1/Tab1/Sch1/pg. 27

a) THESL's argument for the proposed form of regulation rests in part on a shortfall that it suggests is inherent in IRM due to the use of the half year rule applied to rate base calculations. Is it THESL's position that under IRM regulation where the rate base in the base year was set using the half year rule a utility is denied the opportunity to earn a fair return?

b) Please provide the studies that THESL used to support its proposition that an incentive rate making scheme is inherently unfair to a utility if its capital expenditures exceed depreciation.

7.0 Reference A1/Tab1/Schedule 2

a) Please provide the analysis and presentation provided to THESL senior management for the current rate proposal.

b) What alternative rate plans did THESL? Please provide the analysis, studies and reports that were relied upon to determine the way in which it would file its application.

8.0 Reference A1/Tab1/Schedule 2

a) When do THESL's contracts with its unionized employees expire?