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October 24, 2011

via RESS e-filing – signed original to follow by courier

Ms. Kirsten Walli, Board Secretary
Ontario Energy Board
PO Box 2319
2300 Yonge St, 27th floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

Re: Toronto Hydro-Electric System Limited's ("THESL")
Application for 2012-2014 Electricity Distribution Rates
OEB File No. EB-2011-0144

THESL received interrogatories by October 14, 2011 from the following intervenors: Association of Major Power Consumers in Ontario, Building Owners and Managers Association of the Greater Toronto Area, the City of Toronto, Energy Probe Research Foundation, School Energy Coalition, and Vulnerable Energy Consumers Coalition.

Enclosed are the requisite two sets of hard copies of THESL's responses to these interrogatories.

Yours truly,

[original signed by]

Glen A. Winn
Manager, Regulatory Applications & Compliance

:GAW/acc

cc: J. Mark Rodger, Counsel for THESL
Intervenors of Record for EB-2011-0144

SCOPE OF PRELIMINARY ISSUE AND BASIS FOR RESPONDING TO INTERROGATORIES

THESL has received and carefully considered PO No. 1 in the EB-2011-0144 proceeding. At pages 5 to 6 of PO No. 1, the Board states:

> "In its current application, and specifically at Exhibit A1/Tab1/Schedule 2, "The Manner of Regulation for THESL," THESL has provided its reasons and support for making what it characterizes as a cost of service application for electricity distribution rates for the 2012, 2013, and 2014 rate years.
>
> The Board has determined that it will, in the context of its EB-2010-0142 Decision and the Board's letters of April 20, 2010 and March 1, 2011, and in advance of further procedural steps, consider the question of whether the application filed by THESL is acceptable or whether it should be dismissed (the "Preliminary Issue"). To accomplish this, the Board will allow an initial round of interrogatories by intervenors and Board staff to seek additional information specifically related to the Preliminary Issue and THESL's evidence on the Preliminary Issue at Exhibit A1/Tab 1/Schedule 2. Following THESL filing its responses to these interrogatories, the Board will hear oral submissions from Board staff, intervenors and the applicant on whether THESL's application is justified.
>
> Following its determination on the Preliminary Issue, and if the Board decides to proceed with its consideration of THESL's application, the Board will issue a further Procedural Order to allow for further discovery on the application." (emphasis added)

THESL seeks to adhere to the Board's guidance as stated in PO No. 1. As set out below, based on PO No. 1, THESL has developed specific criteria to determine which interrogatories are within scope of the Preliminary Issue, and which interrogatories pertain to the substance of THESL's revenue requirement proposals for the test years. THESL has been guided particularly by the emphasized section of PO No. 1 set out above.

Exhibit A1, Tab 1, Schedule 2 essentially deals with the manner of regulation that should apply to THESL, by addressing the mechanics of revenue requirement determination and certain circumstances in which utilities might be placed, which circumstances dictate increases in revenue requirement and/or rates beyond those that are characteristically available under the IRM framework. These circumstances include negative load growth, the need to replace existing assets at costs which are higher than the costs currently reflected in revenue requirement, and the need to undertake operating expenditures which are at least in part insusceptible to mitigation through productivity improvements.

However, that Manner of Regulation material pertains to the theory of ratemaking and revenue requirement determination, and is general in nature, rather than being particular to THESL or THESL's specific capital and operating expenditure proposals underpinning the proposed revenue requirements and consequential rate changes for the test years. In essence, the Manner of Regulation evidence addresses the question of whether IRM should appropriately apply to a utility which, as a matter of fact, faces the circumstances and consequential cost pressures discussed in that evidence.

After careful consideration of the Board's direction in PO No. 1, and the nature of the Manner of Regulation evidence that is specifically referenced by the Board in that Procedural Order, THESL has concluded that interrogatories specifically pertaining to the Manner of Regulation evidence, or the question of whether THESL, as a matter of fact, is

in the circumstances described in that evidence, are within the scope of the Preliminary Issue as intended by the Board. THESL's rationale for this approach is that responses to these categories of interrogatories will assist the Board in determining whether the theory set out in the Manner of Regulation evidence is valid, and whether it is pertinent to THESL's case. Both of these sub-issues go directly to the Preliminary Issue, framed by the Board as "the question of whether the application filed by THESL is acceptable or whether it should be dismissed".

Conversely, THESL understands and considers to be beyond the scope of the Preliminary Issue, any interrogatories that do not fit the description/criteria above, including those that compare revenue requirement or rate outcomes as between IRM and COS, that pertain to, or purport to test the prudence of, THESL's specific operating and capital expenditure proposals for the test years, or which are otherwise meaningful only upon the assumption that the Preliminary Issue has been determined.

For the purposes of adhering to the direction provided by the Board in PO No. 1, THESL declines at this stage of the proceeding interrogatories which fall in the latter category described above, but will instead reserve its responses to them for the time when the Board directs further discovery on the Application.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 1:

Reference(s): A1/T1/S2/p. 1

It is stated that:

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

a) Please state whether or not under THESL's view of regulation, there would be differences between a cost of service application such as THESL has filed in the present proceeding and a periodic rebasing application as would be filed under the IRM form of regulation.

b) If THESL believes there would be differences, please explain what they are and how the present application would have differed from what has been filed, were it to have been filed as a rebasing application under THESL's view of regulation.

RESPONSE:

a) Yes.

b) There would certainly be differences between a COS application and a rebasing application, because the underlying business plans which the applications would be filed to support would necessarily have to be completely different.

Comparison of these two alternatives must be considered over the entire term of the IRM period, of which the rebasing year is just the first year. After the rebasing year, the utility is faced with a period of 3 to 4 years of a declining revenue requirement, in

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON PRELIMINARY ISSUE

real terms, and what THESL submits would be very close to a static revenue requirement in nominal terms.

As a result the near term business plans of the utility would necessarily be radically different. Under IRM, ratebase could not grow because the growth would be unfunded. This would have the effect of constraining CAPEX to be equal to depreciation, which in THESL's case is in the order of $147 million dollars for 2012. Out of that CAPEX budget THESL would have to fund all non-sustainment distribution plant capital (including customer connections, reactive work, externally initiated plant relocations, and capital contributions to HONI, but excluding engineering capital and AFUDC), as well as customer services capital (including wholesale and end-use metering). The sum of these requirements alone for 2012 is $100 million (see Exhibit D1, Tab 8, Schedule 1, page 5). That leaves $47 million to cover infrastructure renewal projects for which THESL has proposed $275 million, and leaves all other capital projects including critical issues projects, information technology, facilities, and fleet and equipment services (totalling $178 million), as well as engineering capital and AFUDC (totalling $37 million) completely unfunded.

In addition, the mechanics of the IRM-PCI framework are such that 50% of capital expenditures exceeding depreciation ("CEEDs") from the rebasing year would remain unrecognized and uncompensated in ratebase and revenue requirement until the next rebasing. However, THESL cannot suspend depreciation on that capital during the PCI period, so in addition to the foregone return on those amounts, the depreciation on them is permanently lost to the utility, which by itself is confiscatory. Therefore a

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON PRELIMINARY ISSUE

powerful financial disincentive is put in place to ensure that even in the rebasing year, capital expenditures do not exceed depreciation.

THESL's OPEX for the PCI period would also have to decline in real terms. Given wage increases that are unavoidable as a matter of the collective agreement, this would mean that non-wage OPEX would have to contract disproportionately in order to achieve the necessary OPEX reduction.

Furthermore, it would be virtually unavoidable over the IRM period that THESL would be required to spend more, in both OPEX and CAPEX, on minimal emergency repairs to failing equipment such as direct buried underground feeders that will continue to fail absent the infrastructure renewal investments that are required to replace that equipment.

In summary, THESL would be placed in an entirely untenable, unsustainable mode of bare survival for the PCI period of IRM, and would be prevented from ensuring that grid health did not worsen, which in THESL's view is the minimum it must do in its circumstances.

In terms of the specific differences between a rebasing application on one hand, and a COS application made in an ongoing framework of COS applications on the other, the rebasing application would exhibit the following differences:

1. Due to the powerful financial disincentive presented by the operation of the half-year rule in the IRM framework, there would be very strong pressure to minimize or eliminate CEEDs in a rebasing application. This in turn would cripple

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON PRELIMINARY ISSUE

THESL's ability to operate and maintain its system in a responsible fashion and would directly harm the interests of customers in the quality and reliability of electricity service.

2. The character and focus of remaining capital expenditures would turn completely away from rehabilitation of existing infrastructure and by necessity would instead be directed to minimally satisfying legal requirements to connect customers and restore power in outage situations. In addition to the immediate detrimental effects of this on customer service and reliability, such a course would allow the deterioration of the system to continue unabated and would create even more intractable problems with the condition of the system to develop over the near term. This would simply compound the problem and drive up costs for future customers.
3. OPEX would be throttled and any multi-year OPEX programs designed to address areas of increasing real cost would have to be substantially scaled back or cancelled. There would be strong pressure not to hire any additional staff, despite the need for workforce renewal and the need to respond to new requirements (for example, such as the provision of information to landlords on premise consumption), because the rate of cost growth for wages would be expected to significantly exceed the rate of growth of revenue requirement. In addition, revenue requirement in the rebasing year would be calculated based on full time equivalent ("FTE") positions, whereas actual costs in the subsequent year would be driven by year end headcount in the rebasing year, which would be higher than FTEs by definition if incremental hiring took place in the rebasing year. The OPEX programs and budget would have to be set on the presumption that no year over year growth in OPEX could occur, and this would preclude embarking on or

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continuing any programs that would by their nature require OPEX growth over the PCI period. Furthermore, because of embedded increases in labour costs, non-labour OPEX costs would have to decline disproportionately.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 2:

Reference(s): A1/T1/S2/p. 21

It is stated that:

"THESL believes that, as matter of fact, different distributors across the province face varied circumstances in terms of conditions of plant, the need for capital expenditures, and load and customer growth. In turn, these different circumstances produce different outcomes when the IRM regulatory framework is applied, both for customers of those utilities and for the utilities themselves."

a) Please discuss the extent to which THESL regards its circumstances as unique relative to other distributors in the province.

b) Please provide a quantitative assessment that demonstrates the uniqueness of THESL's circumstances particularly with respect to THESL's capital program growth, need for increases in OM&A, load growth and any other elements THESL considers relevant.

RESPONSE:

a) THESL does not regard its circumstances as being unique among the distributors of the province. However, THESL believes that its circumstances are reasonably representative of those of a category of distributors who share characteristics that distinguish them from other categories of distributors.

Table 1 below lists some of the specific characteristics with respect to which utilities can differ, with significant consequences for the appropriateness of the COS versus IRM-PCI regulatory frameworks.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON PRELIMINARY ISSUE

Table 1: Dimensions of Differences Between Distributors

Characteristic	Value Favouring IRM	Value Favouring COS
Customer Growth	High	Low
Load Growth	High	Low
Vintage of Plant	New	Old
Proportion of Non-Revenue Producing CAPEX	Low	High
Proportion of CAPEX covered by Capital Contributions	High	Low

These characteristics are discussed in turn below. It is important to note for these purposes that (growth in) revenue requirement must be distinguished from (growth in) rates. If growth in total revenue requirement is driven largely by growth in customer numbers and load, the impact on rates will be muted or even entirely offset.

Customer Growth: It is typical for utilities to go through different phases and rates of growth as their service area changes. While utilities serving small rural or remote areas may remain relatively static for many years, if or when the area begins to develop as a population centre there will be a phase of relatively rapid growth until the area reaches saturation, or a condition of being more or less fully 'built out'. At that point a phase of redevelopment begins which may be marked by increasing customer and load densities depending on land values in the area.

This pattern is particularly noticeable in major urban centres in Ontario. Typically the urban core area develops first and if it is served by a separate utility, that utility reaches maturity earlier than surrounding areas, which are then developed to provide more residential, commercial, and industrial facilities. That development occurs at

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON PRELIMINARY ISSUE

varying rates through time but typically it takes decades for a municipal service area to become fully built out.

As a result of this pattern of development it can occur that neighbouring utilities exhibit markedly different rates of customer growth. The central utility in the area may be mature when the surrounding utilities are just beginning or are in the middle of a phase of high growth.

High customer growth places high demands on CAPEX to expand the system and connect customers, but it also produces new revenue and serves to expand the base of customers over which fixed costs can be spread, so economies of scale may be realized. In addition, it is typical for a significant portion of the total costs of expansion projects to be covered through capital contributions. As a result it may be possible to sustain distribution rates at relatively stable levels while total revenue requirement grows substantially.

Because IRM acts directly on rates rather than revenue requirement, and because under conditions of high customer growth upward pressure on rates is low or even negligible, IRM is well suited for utilities experiencing high rates of customer growth.

As customer growth rates decline due to the service area becoming mature, the character of utility expenditures begins to shift away from expansion and customer growth to maintenance and eventually to replacement of end-of-life equipment. A diminishing proportion of capital expenditures are revenue producing and opportunities for scale economies through customer growth decline directly as

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customer growth does. The proportion of total project expenditures covered by capital contributions also decreases. As these characteristics become more pronounced for a given utility, IRM becomes less appropriate and sustainable.

Load Growth: Much of the same analysis as set out above with respect to customer growth applies with respect to load growth. Utility costs to supply incremental load once customers are connected are negligible apart from losses, but under existing rate design, fixed and quasi-fixed costs that do not vary with load are in fact recovered through consumption based rates. As a result, although there is little or no effect on distribution revenue requirement from variations in load, load growth has the effect of dampening upward pressure on rates while declining load increases upward pressure on rates.

Vintage of Plant: The age of utility plant has a significant effect on the capital expenditures of the utility, and on whether those capital expenditures are revenue producing. Apart from the effects noted above, two significant factors place considerable upward pressure on revenue requirement and rates as a utility begins to have to replace equipment at end-of-life.

The first is the historical cost basis of revenue requirement and ratemaking. Since ratebase, depreciation, and revenue requirement are based on historical costs of equipment that has been purchased and installed long ago in the case of a utility replacing equipment at end-of-life, the effect of inflation over the life of the equipment being replaced is not recognized in those quantities (ratebase, depreciation, and revenue requirement). Physically, however, the equipment to be replaced has and

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON PRELIMINARY ISSUE

does provide the necessary distribution function until it has to be replaced. This means that equipment that has been providing the distribution function at a very low revenue requirement cost eventually must be replaced, even on a like-for-like basis, with equipment that creates a very much higher cost in revenue requirement, both in terms of return to capital and depreciation. In effect, 40 or more years of inflation becomes embodied in the cost of the replacement asset. However, the replacement asset does not often or necessarily attract any increased load or customers – it merely replaces equipment that serves an already established area.

Compounding the effects of unrecognized inflation is the second factor, which is that in many instances capital or other private contributions covered a significant portion of the total cost of an original expansion project. Developers would either install the required assets and then turn them over to the utility to own and operate, or else make a financial contribution directly. In neither case would the contributed costs count as ratebase or the predecessor concepts to ratebase. At the time, this acted to minimize the rate impact to existing customers of system expansions, for example to serve new suburbs.

Nevertheless, those assets were used to provide utility service and were owned and operated by the utility, though no capital-related costs in terms of return or depreciation were attracted by those assets. However, at the end of life, those assets must be replaced at current replacement costs, again without necessarily attracting any new customers or loads. As a result, the impact on ratebase, revenue requirement, and rates is even more pronounced than in the case of other assets reaching end-of-life.

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Proportion of Non-Revenue-Producing CAPEX: In many situations utilities have a range of equipment vintages and may provide service to both long established areas and newly developing areas within their overall service territory. Most utilities are adding new customers, though at varying rates. Nevertheless, some utilities exhibit a high proportion of CAPEX which is non-revenue-producing due to the need to replace end-of-life assets, while other utilities at a different stage of development in their service area exhibit a low proportion of non-revenue-producing CAPEX.

Replacement of failing end of life assets is not optional for utilities: As explained above, utilities which experience relatively high needs for non-revenue-producing CAPEX will experience corresponding upward pressure on revenue requirement and rates. This upward pressure on revenue requirement is not recognized or accommodated under the IRM regime.

Proportion of CAPEX Covered by Capital Contributions: As noted above under Customer Growth, utilities experiencing high rates of customer growth typically receive significant funding of CAPEX through capital contributions. Although replacement of those contributed assets at end-of-life may create significant upward pressure on rates at the time, current distribution revenue requirement understates the services being provided by the utility assets and is lower than it would be without the capital contributions.

In contrast, utilities faced with replacing contributed assets must undertake the entire cost of doing so without benefit of any offsetting capital contributions. It is not possible to obtain a capital contribution from customers who are already connected to

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(for example) a feeder that needs to be replaced at end of life. Furthermore it is likely that the assets being replaced will be substantially or fully depreciated by the time of their replacement, meaning that an asset that was providing service at low or zero capital-related cost must be replaced, even on a like-for-like basis, with an asset that imposes the revenue requirement of the full, current replacement cost.

While it is the obligation of the utility to replace the end-of-life asset with a new asset in an efficient and cost effective manner, it is impossible in these circumstances to maintain existing service levels without a significant increase in revenue requirement and rates. These circumstances are not accounted for in the current IRM framework.

b) THESL does not accept the premise of the question, which is that THESL is unique among distributors. Furthermore, it is not necessary for THESL to demonstrate that it is unique in order to show that the application of IRM to THESL is not appropriate.

It is not possible within the timeframe given for interrogatory responses for THESL to prepare an exhaustive comparison of itself with other distributors in Ontario, or to use data other than that provided in the OEB Electricity Yearbooks. Also, the Yearbooks do not provide data on vintage of plant, percentage of CAPEX that is non-revenue-producing, or percentage of CAPEX covered by capital contributions. However, Table 1 below provides a comparison of Compound Annual Growth Rates ("CAGR") over the period 2005 to 2010 (the data range of the Yearbooks) of customer numbers, total kWh delivered, and average kW between THESL and a geographically adjacent distributor, PowerStream. The load data are non-normalized, and to reflect the impact of scale economies, are shown both with and without

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON PRELIMINARY ISSUE

adjustments to the 2005 data to reflect utility acquisitions made by PowerStream during that period.

Table 2 shows the significant, and in some instances dramatic differences in these characteristics alone. PowerStream customer numbers CAGR for the 2005 combined utility is 2.65%, or more than 3.8 times that for THESL. For the 2005 single utility, it is 9.83%, or more than 14 times that of THESL. For both measures of load, THESL's growth rate is negative, while that for PowerStream is slightly or significantly positive, depending on the basis of comparison (combined or single utility in 2005).

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Table 2: Comparison of Customer and Load Compound Annual Growth Rates			
	2005	2010	**CAGR**
THESL			
Customers	676,678	700,386	**0.69%**
kWh Delivered	26,395,212,274	24,746,000,033	**-1.28%**
Average kW	4,174,409	4,039,475	**-0.66%**
PowerStream	2005 Including Acquisitions		
Customers	285,600	325,540	**2.65%**
kWh Delivered	8,326,846,710	8,334,777,460	**0.02%**
Average kW	1,422,472	1,447,917	**0.36%**
PowerStream	2005 Excluding Acquisitions		
Customers	203,749	325,540	**9.83%**
kWh Delivered	6,405,015,772	8,334,777,460	**5.41%**
Average kW	1,081,724	1,447,917	**6.00%**

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 3:

Reference(s): A1/T1/S2/p. 28

Table 5: "ROE Consequences of IRM-PCI" shows that THESL's ROE under ICM-PCI drops from the 2011 Approved level of 9.58% to a level of 4.97% in 2012, 0.45% in 2013 and -3.41% in 2014.

THESL's comment on this table is that:
"This analysis clearly shows that an unsustainable reduction in ROE would occur in the first test year and worsen substantially in the subsequent test years. However, by presenting the results of this analysis, THESL specifically does not imply that it would ever be possible in practice for THESL to undertake the proposed expenditures and investments without the corresponding revenue requirements."

a) Please provide THESL's achieved ROE calculated on the same basis as in Table 5 for the actual years 2008 to 2010 and the most current forecast for 2011. Please state whether the 300 basis point off-ramp threshold has been exceeded, or is anticipated to be exceeded in any of these years.

b) In the event, the Board was to determine that it would not provide THESL with the revenue requirements referenced above and THESL made the expenditure and investment cuts implied, please provide any forecasts THESL has of its ROE level in the 2012 to 2014 period under such circumstances, or prepare an alternate version of Table 5 making such assumptions and providing a complete explanation as to what they are. Please comment on the resulting ROE and whether or not THESL believes that it would still be below the 300 basis point offramp level in the 2012 to 2014 period and if so, why.

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON PRELIMINARY ISSUE

RESPONSE:

a) THESL is unable to interpret this question since the figures set out in Table 5 represent the hypothetical results that would be obtained if the proposed component expenditures composing revenue requirement, other than equity returns and PILs, for the test years were actually undertaken by THESL while the revenue requirements for those test years were frozen at 2011 levels. This contrasts with the actual ROE achieved in the years 2008 through 2010, and with that forecast for 2011, where equity returns corresponding with approved ratebase were approved as part of revenue requirement. Therefore the figures cannot be provided "on the same basis".

As the historical years 2008 to 2010 were cost of service years, the concept of the off-ramp threshold amount did not apply. However, THESL confirms that actual ROE did not differ from the then-allowed ROEs by more than 300 basis points in any of those years.

b) THESL has prepared an alternate version of Table 5, attached as Appendix A to this interrogatory response. Apart from the fact that actual closing ratebase in 2011 would form the opening value of ratebase for 2012, in order to prepare the alternate version, THESL has been required to make highly speculative assumptions about the future evolution of costs. These assumptions are as follows:

- $120 million dollars of CAPEX from 2011, not recognized in 2011 due to the half year rule, becomes part of 2012 opening ratebase
- In 2012 and thereafter, CAPEX is constrained to equal depreciation and therefore ratebase remains static for those years

RESPONSES TO ONTARIO ENERGY BOARD STAFF INTERROGATORIES ON PRELIMINARY ISSUE

- Debt costs rise in proportion to ratebase in 2012, at the implied proportionality for 2011, and remain static thereafter
- Depreciation cost rises in proportion to ratebase in 2012, at the implied proportionality for 2011, and remains static thereafter
- OM&A including property taxes remains static at 2011 levels
- Revenue offsets remain static at the 2011 level, which is greater than $8 million above levels forecast for 2012

It is highly unlikely that property taxes would remain at 2011 levels, and it is highly unlikely that revenue offsets would remain at 2011 levels. Even setting those contingencies aside, non-labour OPEX would have to contract disproportionately to compensate for increases in labour OPEX stemming from collective agreement wage increases. This effect is exacerbated by the fact that the 2011 revenue requirement allowed only an FTE basis for labour costs, but actual labour costs for 2012 will have as a starting point 2011 year end headcount, which exceeds 2011 FTEs by definition.

Similarly, CAPEX in all forms would have to be severely curtailed in order to maintain parity with depreciation through the test years. The cuts in OPEX and CAPEX would have seriously damaging impacts on system health and customer service.

Under these assumptions ROE declines from 9.58% to 8.1% (148 basis points), as a result of the structural deficit inherent when the half year rule is used in the context of significant CEEDs in the rebasing year followed by years of revenue requirements being set under the IRM-PCI regime.

ROE Determination Holding Other BDRR Components at 2011 levels

	Goal Seek Section				Base Case Reference Section				
	2011	2012	2013	2014	2011	2012	2013	2014	
Ratebase	2,298,227,281	2,418,227,281	2,418,227,281	2,418,227,281	2,298,227,281	2,636,291,432	3,053,499,411	3,503,165,454	
Debt Cost	71,373,746	75,100,466	75,100,466	75,100,466	71,373,746	77,886,594	89,545,702	103,301,343	0.031056
Equity Return (Goal seek control)	88,068,069	78,389,095	78,389,095	78,389,095	88,068,069	101,022,688	117,010,097	134,241,300	
PILs	11,791,223	10,495,328	10,495,328	10,495,328	11,791,223	1,534,206	6,161,314	8,708,005	
Depreciation	138,815,781	146,063,930	146,063,930	146,063,930	138,815,781	146,614,842	164,600,851	186,871,432	0.060401
OMA	231,214,224	231,214,224	231,214,224	231,214,224	231,214,224	255,273,039	273,505,457	291,355,357	
Property taxes	6,802,382	6,802,382	6,802,382	6,802,382	6,802,382	7,026,861	7,174,425	7,325,088	
OMA incl prop taxes	238,016,606	238,016,606	238,016,606	238,016,606	238,016,606	262,299,899	280,679,882	298,680,445	
Revenue Offsets	(26,021,082)	(26,021,082)	(26,021,082)	(26,021,082)	(26,021,082)	(17,989,091)	(18,505,897)	(19,025,518)	
BDRR (Goal Seek target for 12,13,14)	522,044,344	522,044,344	522,044,344	522,044,344	522,044,344	571,369,138	639,491,949	712,777,007	
Effective PILs rate	13.39%	13.39%	13.39%	13.39%	13.39%	1.52%	5.27%	6.49%	
ROE Proposed	9.58%	9.58%	9.58%	9.58%	9.58%	9.58%	9.58%	9.58%	
ROE Effective	9.58%	8.10%	8.10%	8.10%	9.58%	9.58%	9.58%	9.58%	
PCI BDRR	522,044,344	522,044,344	522,044,344	522,044,344	522,044,344	522,044,344	522,044,344	522,044,344	

Sources: J1, T2, S5 2012, 2013, 2014 AND EB-2010-0142 DRO REVENUE REQUIREMENT WORKFORM

RESPONSES TO ENERGY PROBE RESEARCH FOUNDATION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 1:

Reference(s): 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.

RESPONSE:

Depreciation represents the return of capital to investors in the system. Investors in the system, who are typically but not exclusively municipalities, are free to invest the capital returned to them in any manner open to them, but again typically the cash flow from depreciation is reinvested in the system to meet current needs for customer attachment, expansion, and renewal of existing infrastructure.

THESL does not agree that the shortfall would be overstated if funds from depreciation were reinvested to produce income. Reinvestment of capital in some income producing form is routinely done by investors, and it is rare that cash balances are left idle for any significant period of time. The shortfall exists independently of the manner in which investors invest their funds during the depreciation period, and instead arises because of increases in costs (both nominal and real) over that period. Even if the cash flow from

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depreciation was invested in a segregated fund that earned interest during the depreciation period, the amount of capital required at the time of replacement would not be affected.

Furthermore the current treatment of interest income earned by a utility is that it is treated as a revenue offset and if that treatment were to be applied to depreciation funds invested then the interest income would flow to rate reductions in each successive year instead of accumulating for later use in system reinvestment.

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INTERROGATORY 2:

Reference(s): 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.

RESPONSE:

THESL's evidence at the point of reference contained a typographical error which THESL regrets. The evidence in question should have read as:

> "In addition, in normal markets third-party lenders will not issue incremental debt at the same interest rate as the ratio of debt to total capitalization rises, and will refuse to lend as the debt:equity ratio approaches 1:0."

a) See explanation above.

b) Not applicable.

c) THESL's deemed capital structure is 56% long term debt, 4% short term debt, and 40% equity. The actual capital structure at any particular time varies within a narrow

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range around these figures.

d) Toronto Hydro is currently not facing reluctant lenders for capital financing because the company is only expected to borrow for its capital program after the OEB has approved its capital budget. The company's last capital-related borrowing was undertaken in May, 2010. Toronto Hydro expects to borrow to refinance an upcoming maturity (due December 30, 2011) prior to end of 2011.

In general, capital market participants have drawn comfort from the fact that any underlying debt that THESL may require for capital expenditures and the capital budget itself has been approved by the OEB. Some evidence for this comfort can be gleaned from page 6 of the annual update of the company's last creditworthiness review from DBRS [Exhibit E1, Tab 6, Schedule 1], on which capital market participants rely.

> "Capital expenditures for THESL are planned to increase through 2012 and 2013. The OEB issued a decision for capital expenditures of $350 million for the period of May 2010 to April 2011…However, THESL is only expected to ramp up to the higher capital expenditure level once OEB approval is obtained".

The implication is that if such approvals were not forthcoming, and if Toronto Hydro were to access capital markets for capital-related borrowings, lender reluctance would be an issue.

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INTERROGATORY 3:

Reference(s): 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?

RESPONSE:

THESL does not anticipate that IRM as currently structured could appropriately apply to THESL in the near future. Please also see Exhibit R1, Tab 2, Schedule 5.

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INTERROGATORY 4:

Reference(s): 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.

RESPONSE:

THESL's view is that the applicability of IRM as currently structured does not follow the high level classification of (total) CAPEX and (total) OPEX as embodied in the question. Conceptually it is possible that portions of both CAPEX and OPEX could be appropriately regulated under a framework similar to the existing IRM framework, but other portions cannot be.

For example, expenditures on infrastructure renewal involve both CAPEX and OPEX categories, and those expenditures exert upward pressure on revenue requirement and rates in a manner that is distinctly different from, for example, CAPEX directed to system expansion and customer growth.

The premise of IRM as currently configured is that revenue requirement declines annually in real (i.e., inflation adjusted) terms by an amount equal to the sum of the productivity factor and the stretch factor. THESL agrees in principle that it could be appropriate to regulate some portions of CAPEX and OPEX along those lines, where it is demonstrable that the expenditures in those categories are susceptible to productivity

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improvements at approximately the rate given by the sum of the productivity and stretch factors.

Nevertheless, it remains the case that increases in ratebase necessary for infrastructure renewal cannot be susceptible to 'productivity improvements'. It is axiomatic that increases in ratebase must attract a higher revenue requirement, although in cases where that increase in ratebase is accompanied by increases in billing determinants (i.e., customer and load growth), there may be a much diminished or even zero impact on rates. The closest analogy to a 'productivity' improvement for non-revenue-producing increases in ratebase is a lowering of the cost of capital applicable to that ratebase. That approach would violate the fair return standard, has never been adopted by the Board, and would be strongly opposed by THESL.

Similarly, while THESL accepts that labour productivity improvements are possible and continuously strives to realize them, real increases in labour force necessary for the purpose of workforce renewal and safe, reliable operation of the system must entail real increases in cost. Again, on the assumption that growth in the labour force is necessary, the closest analogy to 'productivity' improvements would be the reduction of wages to the entire workforce, so that the same (or an even smaller) 'pie' is divided among more workers. This would violate THESL's collective agreement, poison labour relations, eliminate THESL's ability to attract workforce candidates, and be a practical impossibility in any event. THESL would strongly oppose that hypothetical approach.

In summary, THESL acknowledges that some CAPEX and some OPEX is susceptible to real cost reductions through productivity improvements, and could therefore be subject to

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an IRM regime which demands real reductions in revenue requirement. However, substantial portions of THESL's total revenue requirement, consisting of both CAPEX and OPEX, are subject to real cost increases which follow directly and inevitably from the requirements that THESL faces to continue to provide safe, reliable distribution service. Those portions of THESL's overall revenue requirement cannot be subject to a mechanistic approach which effectively denies funding of those costs.

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INTERROGATORY 5:

Reference(s): 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.

RESPONSE:

THESL cannot predict when annual rebasing will become unnecessary. A cost of service application is the only rate setting option currently available to THESL that adequately recognizes its long-term planned capital and workforce requirements.

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INTERROGATORY 6:

Reference(s): 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.

RESPONSE:

THESL's remark was a general one and not intended to represent the results of a specific analysis. Generally, items that are determined by contract, statute, regulation, or a similar instrument exist at the highly predictable end of the spectrum. These could include labour rates over the term of a collective agreement, materials, supplies, and other services procured under contract, property taxes, permit fees, pension costs and other similar items.

At the other, less predictable end of the spectrum would be items such as commodities, the prices for which are determined on the open market (regularly or at the end of procurement contracts), costs which are occasioned by unpredictable exogenous factors like weather, and unanticipated new costs resulting from changes in THESL's mandated responsibilities or the regulatory framework in which THESL operates.

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INTERROGATORY 7:

Reference(s): 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.

RESPONSE:

The cited text (on Exhibit A1, Tab 1, Schedule 2, page 19, lines 25-26) describes the shareholder's risk for unplanned expenditures based on the regulatory framework in place. Historical actual-to-approved spending variances are not relevant to the Manner of Regulation matter that is currently under review.

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INTERROGATORY 8:

Reference(s): 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.

RESPONSE:

a) The question has no relation to the evidence citation. However, THESL's position is that certain categories of costs are susceptible to productivity improvements while others are not. For those categories of cost which are susceptible to productivity improvements, it would be speculative for THESL to state whether productivity improvements over any particular time period could be greater or less than the sum of the productivity factor and the stretch factor.

b) The question is vague with respect to what 'costs' are being considered. If the question is with respect to overall revenue requirement, it is THESL's position that revenue requirement will increase faster than inflation because of the 'real' cost increases that THESL is facing.

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INTERROGATORY 9:

Reference(s): 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%?

RESPONSE:

a) and b)

GDP-IPI (Statistics Canada Series V1997757)		
Year.Qtr	Index	Inflation
2010.01	115.4	0.9%
2010.02	115.6	1.0%
2010.03	116.1	1.5%
2010.04	116.7	1.6%
2011.01	117.5	1.8%
2011.02	117.9	2.0%

c) Based on the PCI formula, a GDP-IPI rate of 1.5%. 2.0% or 2.5% would produce a PCI of 0.18%, 0.68% and 1.18% respectively.

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INTERROGATORY 10:

Reference(s): **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 1, 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?

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

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INTERROGATORY 11:

Reference(s): 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.

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

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INTERROGATORY 12:

Reference(s): 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.

RESPONSE:

THESL is unclear as to whether any of its planned capital would be eligible for inclusion in the ICM. 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.

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INTERROGATORY 13:

Reference(s): 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%.

RESPONSE:

a) Using the Board approved 2011 rate base ($2,298.2 million) and depreciation expense ($138.8 million), with the growth factor of 0.46% and a GDP-IPI of 2.0% that results in a PCI of 0.68%, the 2012 Threshold Value of the Board's ICM formula is 138.9%.

b) The revised CAPEX level associated with materiality threshold is $192.9M.

c) Assuming a GDP-IPI of 2.5% in place of the 2.0%, the 2012 Threshold Value of the Board's ICM formula is 147.2% and the CAPEX level associated with materiality threshold is $204.4M.

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INTERROGATORY 14:

Reference(s): 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.

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

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INTERROGATORY 15:

Reference(s): Exhibit A1, Tab 1, Schedule 2, Table 5

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

RESPONSE:

The accounting return on equity ("ROE") based on forecasted net income and equity for the Bridge year is 9.15%.

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INTERROGATORY 16:

Reference(s): 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.

RESPONSE:

THESL definitely 'considers' other forms of regulation, is an active participant in the Board's Renewed Regulatory Framework for Electricity, and would welcome the opportunity to work with Board Staff and intervenors to develop enhancements to or alternatives to both COS and IRM.

However, for purposes of its rate case, it was not open to THESL to choose or reject any filing framework other than COS or IRM.

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INTERROGATORY 17:

Reference(s): 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?

RESPONSE:

Please also see THESL response to VECC Interrogatory 3.

THESL believes that the application of the ICM every year would not yield any regulatory efficiencies, and as stated, does not accept the premise of the question. In addition, the ICM contains the 20% factor which would have the effect of denying revenue requirement for a significant portion of THESL's capital expenditures and this could not be acceptable to THESL.

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INTERROGATORY 18:

Reference(s): **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.

RESPONSE:

Please see THESL response to VECC Interrogatory 3.

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INTERROGATORY 1:

Reference(s): A, T1, Sch. 2, p 24
D, T7, Sch. 6, pp 7 and 84

Due to the preliminary nature of this proceeding, we did not deem it prudent to review THESL's evidence in detail, thus, the answers to some of our questions may be already in the evidence. If that is the case, please provide the reference to the evidence, rather than reproducing the material in the Interrogatory Response.

(a) THESL appears to have filed the second annual version of its capital plan, entitled the Electrical Distribution Capital Plan ("EDCP"), 2012-2021 in this proceeding. The current version (1.42) apparently updates and supersedes Version 1.0, 2011-2020 EDCP, filed in August 2010 as part of EB-2010-0142 (D, T8, Sch. 10). You note at p 7 of the Current Version (1.42) that:

> "The EDCP focuses on capital investment programs to be executed over the next ten-year period, but does not provide details on specific projects to be executed within this time period. That is, the EDCP captures the *total* investments relating to the operational electrical and civil assets within the electrical distribution system operated by THESL. The information presented here does not cover investments relating to the GEA, corporate investments, or investments relating to IT, facilities, fleet, metering or street lighting services."

The plan shows CAPEX of $499.6M, $519.5M, and $540.1M for the years 2012, 2013, and 2014, respectively, while the CAPEX numbers shown at A, T, Sch. 2, p 24

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for those years as $590M; $615M, and $640M. I assume all or most of the difference is accounted for the categories of CAPEX outlined in the above quote. Could you reconcile the two sets of CAPEX numbers, for each of the years 2012, 2013, and 2014, by providing a breakdown of the additional CAPEX by category and/or project, that is not included in the Capital Plan, but is included in the table on p 24 of Ex. A, T1, Sch. 2?

(b) Would you outline, at a high level, the changes that the current Capital Plan makes to the CAPEX for 2012, 2013, and 2014, from the amounts shown for those years in Version 1.0 of the Capital Plan?

(c) Was version 1.0 the first version of the Long Term Capital Plan, or were there earlier versions or earlier Capital Plans? If so, please identify them in the evidence of previous cases, and briefly discuss the transition to comprehensive Long Term Capital Plan.

RESPONSE:

THESL declines these interrogatories for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

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INTERROGATORY 2:

Reference(s): A, T1, Sch. 2

Can you provide, for at least the last five years, year by year, the company's:

- capital expenditures, both proposed and approved, either in a Settlement Conference or in a Board Decision;
- depreciation;
- excess of proposed and approved capital expenditures over depreciation ("CEED");

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

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INTERROGATORY 3:

Reference(s): A, T1, Sch. 2

Would you provide, beginning from the beginning of the period during which the Ontario Electricity distributors were rate-regulated by the OEB, in what years THESL submitted cost-of-service applications and cost-of-service "rebasing applications" or "IRM annual adjustment" applications. Please note the type of application submitted in each year, and in respect of each year's application, whether the OEB provided, as part of its decision in that proceeding, any explicit direction on what type of submission, "COS", "COS rebasing" or IRM adjustment THESL should file in the subsequent year? Has THESL ever made an IRM annual adjustment filing?

RESPONSE:

Table 1 on the following page summarizes the requested information. THESL and the majority of other utilities in the Province followed the PBR regime until 2006. The PBR regime itself was interrupted by the statutory rate freeze, which was lifted in stages in 2004 and 2005. For 2006 THESL chose the forward test year COS filing option. For 2007 THESL filed on an IRM basis. For 2008-2010, THESL filed on a three-year forward test period basis, and was granted a two-year forward test period. For 2009 THESL filed a formulaic update application as part of the approved multi-year test period. For each of 2010 and 2011 THESL filed forward test year COS applications. Other than for the 2009 test year, when the formulaic update was prescribed by the Board and followed from THESL's proposed multi-year test period, the Board has not prescribed a form of filing.

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1 **Table 1**

Year	Type of Filing	Explicit Direction
2000	PBR	No
2001	PBR	No
2002	PBR	No
2003	No filing – rate freeze	No
2004	PBR - Regulatory Assets Recovery	No
2005	PBR – Regulatory Assets Recovery, PILs, MBRR	No
2006	COS – Forward Test Year	No
2007	IRM	No
2008	COS – 2 year Future Test Year	Yes – update for Year 2
2009	Year 2 Update for prior application	No
2010	COS – 1 year Future Test Year	No
2011	COS – 1 year Future Test Year	No

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INTERROGATORY 4:

Reference(s): A, T1, Sch. 2

Is THESL aware of any proceeding before the Board in either the natural gas or electricity sector, since the restructuring of the gas markets and the electricity markets, in which the Board has asked parties to advise the Board on the relative merits of cost-of-service and incentive rate-making approaches to ratemaking (as opposed to different types of IRM), where parties were asked to provide evidence based on Ontario's experience to date with both methods in both sectors, and which takes into account the interests of both utilities and ratepayers; if THESL is aware of such a proceeding, would it file the Board Decision or Report in such proceeding(s)?

RESPONSE:

THESL is not aware of such a proceeding historically, but believes that these topics are within scope for the Renewed Regulatory Framework for Electricity consultations.

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INTERROGATORY 5:

Reference(s): A, T1, Sch. 2, p 28, Table 5

Could you provide the calculation that shows the derivation of the equity returns and ROEs under PCI BDRR shown in the Tables entitled ROE Consequences of IRM-PCI for the years 2012, 2013, and 2014?

RESPONSE:

By way of correction, THESL regrets that Table 5 contained minor inaccuracies related to debt costs and equity returns. The inaccuracies were too small to affect the calculated ROE values at the level of precision displayed. The corrected Table 5 appears below.

Table 5: ROE Consequences of IRM-PCI (corrected)

	2011 Approved	2012	2013	2014
Equity Returns under PCI BDRR	$88,068,069	~~$52,441,342~~ $52,435,771	~~$5,456,501~~ $5,437,489	~~$(47,784,377)~~ $(47,783,358)
Proposed ROE	9.58%	9.58%	9.58%	9.58%
ROE under PCI BDRR	9.58%	4.97%	0.45%	(3.41%)
Proposed Effective PILs Rate	13.39%	1.52%	5.27%	NA
PILs	$11,791,223	$2,012,755	$402,763	0

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The calculations of equity returns and ROE were performed using the 'goal seek' function under which the Excel program iterates successive values of a control variable which (at least in part) determines the value of a target variable. In this case the control variable was equity return and the target variable was base distribution revenue requirement ("BDRR"). The values of the 'input' variables representing the components BDRR for the three test years are taken from the revenue requirement workforms filed at Exhibit J1, Tab 2, Schedule 5. Under the 'ROE' scenario, the values for the input variables are held equal to those proposed in the Application to test the effect of maintaining a constant (target) BDRR set at the 2011 approved value on the value of (control) equity returns and consequently ROE.

The input variables that are held equal to the proposed values in this scenario are ratebase, debt costs, depreciation, OM&A including property taxes, and revenue offsets. The consequential variables (those determined consequentially to the goal seek calculation) are PILs and ROE.

For each year the goal seek function iterated to find the value of equity returns that satisfied the constraint the BDRR be held constant at 2011 values, given the proposed values of the other input variables. In the spreadsheet, the values for the input variables are simple numbers that are not the results of equations. The values for BDRR are determined by an equation (i.e., the sum of debt cost, equity returns, PILs, depreciation, OM&A including property taxes, and revenue offsets), but the goal seek function holds those values for BDRR to the specified constant levels. The values for PILs and ROE were determined by formula as each is a function of equity returns.

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1 Appendix A to this interrogatory provides the spreadsheet involved.

ROE Determination Holding Other BDRR Components as Proposed

	Goal Seek Section					Base Case Reference Section			
	2011	2012	2013	2014		2011	2012	2013	2014
Ratebase	2,298,227,281	2,636,291,434	3,053,499,410	3,503,165,454		2,298,227,281	2,636,291,432	3,053,499,411	3,503,165,454
Debt Cost	71,373,746	77,886,594	89,545,702	103,301,343	/c	71,373,746	77,886,594	89,545,702	103,301,343
Equity Return (Goal seek control)	88,068,069	52,435,771	5,437,489	(47,783,358)	/c	88,068,069	101,022,688	117,010,097	134,241,300
PILs	11,791,223	796,329	286,318	-		11,791,223	1,534,206	6,161,314	8,708,005
Depreciation	138,815,781	146,614,842	164,600,851	186,871,432		138,815,781	146,614,842	164,600,851	186,871,432
OMA	231,214,224	255,273,039	273,505,457	291,355,357		231,214,224	255,273,039	273,505,457	291,355,357
Property taxes	6,802,382	7,026,861	7,174,425	7,325,088		6,802,382	7,026,861	7,174,425	7,325,088
OMA incl prop taxes	238,016,606	262,299,899	280,679,882	298,680,445		238,016,606	262,299,899	280,679,882	298,680,445
Revenue Offsets	(26,021,082)	(17,989,091)	(18,505,897)	(19,025,518)		(26,021,082)	(17,989,091)	(18,505,897)	(19,025,518)
BDRR (Goal Seek target for 12,13,14)	522,044,344	522,044,344	522,044,344	522,044,344		522,044,344	571,369,138	639,491,949	712,777,007
Effective PILs rate	13.39%	1.52%	5.27%	6.49%		13.39%	1.52%	5.27%	6.49%
ROE Proposed	9.58%	9.58%	9.58%	9.58%		9.58%	9.58%	9.58%	9.58%
ROE Effective	9.58%	4.97%	0.45%	-3.41%		9.58%	9.58%	9.58%	9.58%
PCI BDRR	522,044,344	522,044,344	522,044,344	522,044,344		522,044,344	522,044,344	522,044,344	522,044,344

Sources: J1, T2, S5 2012, 2013, 2014 AND EB-2010-0142 DRO REVENUE REQUIREMENT WORKFORM

RESPONSES TO ASSOCIATION OF MAJOR POWER CONSUMERS IN ONTARIO INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 1:

Reference(s): Exhibit A1, Tab 1, Schedule 2, Page 10

THESL's evidence states that there are some factors which lead the Board to consider that granting the Applicant two years of its cost of service application for 2008 and 2009 may be an effective regulatory approach, provided there are sufficient mid-term updates reflecting its performance relative to its forecast and productivity gains.

Please discuss the mid-term updates provided by THESL and include any relevant documents.

RESPONSE:

In the Board's EB-2007-0680 Decision at Page 14 it stated: "…the Board requires the Company to provide a report reflecting its progress in its replacement and maintenance programs for its underground cable replacement and plant replacement program, to be filed at the time of its next application dealing with rates beyond the test period dealt with in this proceeding."

THESL filed as part of its EB-2009-0139 application a "Sustaining Capital Progress Report" at Exhibit Q1, Tab 2, Schedule 1 which is available on the Board's website.

THESL also filed in that application, "Analysis of Productivity Improvements at Toronto Hydro-Electric System Limited" at Exhibit Q1, Tab 5, Schedule 1.

RESPONSES TO ASSOCIATION OF MAJOR POWER CONSUMERS IN ONTARIO INTERROGATORIES ON PRELIMINARY ISSUE

To the extent that this interrogatory seeks further information THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble.

Witness:

RESPONSES TO ASSOCIATION OF MAJOR POWER CONSUMERS IN ONTARIO INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 2:

Reference(s): Exhibit D1, Tab 8, Schedule 1, Page 5, Table 1

Please reproduce Table 1: Summary of Capital Budget to include the original figures filed in the application for the years 2008 to 2011.

RESPONSE:

The concepts underlying Table 1 are forward looking by definition and therefore cannot be backcast. Historical information is available from the Board's website.

RESPONSES TO ASSOCIATION OF MAJOR POWER CONSUMERS IN ONTARIO INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 3:

Reference(s): Exhibit A1, Tab 1, Schedule 2, Page 26, Table 3

a) Please provide the number of Union + Non-Union management FTEs for 2008, 2009 and 2010.

b) Please provide the most recent figure for 2011 of Union + Non-Union management FTEs.

RESPONSE:

a) and b) THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO ASSOCIATION OF MAJOR POWER CONSUMERS IN ONTARIO INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 4:

Reference(s): Exhibit A1, Tab 1, Schedule 2, Page 30

On Page 30, the evidence states "All of this evidence pointed to the pressing need to invest substantially in THESL's aging, and in many cases failing distribution infrastructure. This investment is needed both to 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."

Has THESL studied the factors causing failures and how age correlates? If so, please discuss.

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO CITY OF TORONTO INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 1:

Reference(s): none provided

The City of Toronto has concerns about the Ontario Energy Board's Cost Allocation model, specifically with respect to the costs allocated to the Street Lighting (SEL) customer class. It is vital that the City be able to explore this issue and challenge the model in a public hearing before the Board.

For the purposes of this question please assume that THESL's 2012-14 rates are to be set using the OEB's IRM rate-setting methodology. So assuming, please:

a) provide the 2012-14 SEL distribution rates;
b) describe in detail how these rates would be calculated;
c) discuss how other changes to SEL rates (e.g., due to the inclusion in rate base of SEL assets and proposed changes to the computed Revenue:Cost ratio) would be treated and the reasons for this treatment;
d) describe how differences between THESL's proposed SEL rates and those authorized for other LDCs in Ontario would be tested and reconciled;
e) discuss how allocated SEL distribution costs respond to reduced energy use by the customer class;
f) discuss how THESL's SEL distribution rates compare to those authorized for other customer classes;
g) discuss how the load characteristics of the SEL customer class compares to those of other customer classes who are charged lower distribution rates; and

RESPONSES TO CITY OF TORONTO INTERROGATORIES ON PRELIMINARY ISSUE

h) discuss whether in a rates proceeding that uses the OEB's IRM rate-setting methodology it would be THESL's position that the City could explore the issues described in parts b) -g) above fully and fairly.

RESPONSE:

a), b), e) to g) THESL declines these interrogatories for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

c), d) and h) The Ontario Energy Board is the authority that sets the scope and process for proceedings before it. THESL's understanding is that these issues would not be explored in the context of an IRM-PCI proceeding, but could be explored in a COS context.

RESPONSES TO CITY OF TORONTO INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 2:

Reference(s): none provided

For each of the historic years 2006-2010 inclusive:

a) Please provide THESL's actual OEB authorized Base Distribution rates in the same format as EM1/T1/S1/p2/Tbl1.

b) Please provide or confirm that ED1/T7/S2/p1 provides THESL's actual quality of service using the OEB's Service Quality Indicator metrics.

c) Please provide or confirm that ED1/T7/S3 provides THESL's actual reliability of service (i.e., SAIDI, SAIFI and CAIDI.)

RESPONSE:

a) to c) THESL declines these interrogatories for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO CITY OF TORONTO INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 3:

Reference(s): none provided

Please confirm that EA1/T1/S2/p28/Tbl5 provides the quantification of the achievable return on equity, assuming that rates are set using the OEB's IRM rate setting methodology and THESL's proposed OM&A and CAPEX.

RESPONSE:

THESL confirms that Table 5 in the above noted evidence provides the calculated ROE assuming that THESL proceeds with expenditures as proposed for the test years but that revenue requirement in those test years is held at the 2011 approved level.

RESPONSES TO CITY OF TORONTO INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 4:

Reference(s): none provided

Please assume that THESL's 2012 -2014 base distribution rates are set using the OEB's IRM rate setting methodology and that THESL will achieve the OEB authorized return on equity in each year. Based on those assumptions, please quantify each of the following scenarios independently:

a) The resulting change to the forecast OM&A expense;
b) The resulting change to the forecast CAPEX.
c) Please describe how THESL would allocate the resulting reductions between OM&A and CAPEX and describe the rationale for this allocation. Please also discuss how these reductions are expected to impact THESL's operations. Please state all assumptions and supporting facts.

RESPONSE:

Please also see THESL's response to Board Staff Interrogatory 3, at Exhibit R1, Tab 1, Schedule 3.

It is not possible for THESL to provide a meaningful response to this interrogatory as posed, if what is meant is that the revenue requirement shortfall is to be absorbed 'independently' in either the OPEX or CAPEX categories. With respect to question a), while it is possible to calculate the level of OPEX that would be consistent with a BDRR frozen at 2011 levels while assuming the proposed levels of ratebase, the result is meaningless since it would be impossible to achieve. The levels of OM&A consistent

RESPONSES TO CITY OF TORONTO INTERROGATORIES ON PRELIMINARY ISSUE

with the assumptions are $206 million, $156 million, and $101 million in 2012 through 2014 respectively, compared with an approved 2011 level of $231 million.

With respect to question b), CAPEX is not a direct determinant of revenue requirement. However, the levels of ratebase consistent with holding all other components equal while maintaining the frozen 2011 revenue requirement imply zero CAPEX in the test years and write-offs in excess of depreciation of $66 million, $210 million, and $251 million in 2012, 2013, and 2014 respectively.

With respect to question c), there are an infinite number of combinations of OPEX and CAPEX reductions that are mathematically consistent with a BDRR frozen at 2011 levels, and it is not possible to meaningfully speculate at this point as to how the reductions would be achieved, if they were even possible in any practical sense.

RESPONSES TO CITY OF TORONTO INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 5:

Reference(s): none provided

Please discuss the pattern of change exhibited by THESL's OEB authorized base distribution rates for the years 2006-2011 inclusive from the perspective of THESL's customers. (e.g., smooth, stepwise, saw-toothed). Please discuss whether the proposed Cost of Service based rates for the period 2012-2014 are expected to continue this pattern or not and the advantages and disadvantages of this pattern.

RESPONSE:

Generally base distribution rates for THESL have been set annually over the period in question, and follow a stepwise pattern of increase. The proposed COS rates for the test period would also follow this pattern.

THESL takes the view that revenue requirement and rates should follow the evolution of the underlying costs of providing service, and that those costs should be managed to produce reasonably the smoothest evolution of revenue requirement, with costs being neither deferred nor advanced relative to their need. For utilities in circumstances similar to those of THESL, annual or multi-year COS proceedings are at present more conducive to the goals of avoiding abrupt rate increases and managing underlying costs than the IRM rebasing-PCI approach.

RESPONSES TO CITY OF TORONTO INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 6:

Reference(s): none provided

Please discuss why it would be in the public interest for the OEB to restrict its own discretion regarding the choice of rate setting methodology given THESL's circumstances.

RESPONSE:

THESL does not believe it would be in the public interest for the Board to fetter its discretion with respect to the manner of determining revenue requirements for distributors. THESL believes the Board should have regard for the relevant circumstances faced by different distributors and should determine the most appropriate manner of regulation to be applied based on consideration of those differing circumstances.

RESPONSES TO CITY OF TORONTO INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 7:

Reference(s): none provided

Please describe why, in THESL's view, it would be necessary to consider all of THESL's application before deciding the preliminary issue.

RESPONSE:

No evidence reference is provided for this interrogatory, and the question does not represent THESL's view on this issue.

THESL's view, as clearly stated in evidence at Exhibit A1, Tab 1, Schedule 2, pages 2 to 3, is that the preliminary issue can be properly determined by the Board if the Board finds that a *prima facie* case exists to demonstrate that THESL could not adequately manage its resources and financial needs if revenue requirement were determined through the PCI mechanism. The Board would thus determine that THESL's revenue requirements in the test years would be set in a COS framework.

It is not necessary for the Board to take the second step of precisely determining THESL's revenue requirements in the test years for the Board to properly determine the Preliminary Issue.

RESPONSES TO CITY OF TORONTO INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 8:

Reference(s): none provided

ED1/T3/S1-2/p3 and EF2/T1/S6/AppA/p1 both provide information on THESL's regulatory expenses.

a) Please provide the estimated costs of the this Application;

b) Considering THESL's circumstances, please estimate the costs of an application to adjust THESL's rates under the OEB's IRM rate setting methodology; and

c) Please discuss the impact on rates of the recovery of these separate amounts.

RESPONSE:

a) to c) THESL declines these interrogatories for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 1:

Reference(s): 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.

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON PRELIMINARY ISSUE

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.

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON PRELIMINARY ISSUE

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?

RESPONSE:

a) Please refer to THESL's response to Board Staff Interrogatory 1, at Exhibit R1, Tab 1, Schedule 1.

b) THESL confirms that the business plans underpinning the revenue requirements and rates proposed for all three rate years in the test period are all founded on the premise

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON PRELIMINARY ISSUE

of continuing COS determination of revenue requirements. None of the individual revenue requirements of the years in the test period are proposed in contemplation of their being followed by any period of IRM-PCI revenue requirement determination. With respect to the differences that are involved, please see THESL's response to Board Staff Interrogatory 1 at Exhibit R1, Tab 1, Schedule 1.

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 2:

Reference(s): **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.

RESPONSE:

a) Please see THESL's response to Board Staff Interrogatory 3, at Exhibit R1, Tab 1, Schedule 3.

As noted in that response, the assumptions underpinning it are highly speculative. THESL's business is complex and must be planned well in advance of execution. In addition, THESL must respond to conditions and events that cannot be specifically

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON PRELIMINARY ISSUE

foreseen. It is not possible for THESL to conduct its business responsibly while planning for dramatically different business condition scenarios that would exist as alternatives for the same period. Stated differently, THESL must use its best judgement as to which scenario is most probable and then plan accordingly; it cannot plan simultaneously for two radically different scenarios because such scenarios would imply conflicting commitments and plans for resource acquisition and deployment.

THESL is of course aware that the prospect exists of revenue requirement being set under the IRM-PCI framework. However, THESL believes that there are compelling reasons for the Board not to do that. If the Board were to proceed on that basis, THESL would be forced to undertake a painstaking, complex, and ultimately unjustified exercise of developing some compromise between the health of its system and the needs of its customers on one hand, and its duty to operate in a sustainable and responsible financial manner on the other. THESL cannot meaningfully speculate as to the exact outcome of that exercise at the current time, but can say categorically that the interests of customers in the quality and reliability of electricity service would be seriously damaged, and that such treatment would be confiscatory from the perspective of shareholders and would represent a violation of the fair return standard.

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 3:

Reference(s): **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

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON PRELIMINARY ISSUE

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.

RESPONSE:

a) THESL declines to produce the analysis requested on the basis that the scenarios outlined demonstrably conflict with established Board policy concerning the application of the ICM and would therefore have no probative value.

Scenario 1 is in essence what THESL has proposed in its evidence, with the exception that revenue requirement related to the 20% factor in the ICM threshold calculation would be confiscated. THESL does not believe that the Board intended that the ICM itself, or the 20% factor, be applied on a repetitive, year-over-year basis to provide a funding mechanism for CAPEX that is demonstrably non-extraordinary.

Similarly, Scenario 2 is one in which it is supposed that Board policy is something diametrically opposed to what it actually is.

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 4:

Reference(s): 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.

RESPONSE:

a) THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 5:

Reference(s): 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?

RESPONSE:

a) THESL chose three years rather than some other number of years for the following reasons:
    i) The existing IRM framework does not accommodate THESL's circumstances as discussed in responses to Board Staff Interrogatories 1 and 2.
    ii) A multi-year COS strikes a balance, in THESL's view, between the uncertainty associated with certain long-term forecasts impacting costs and revenues, and regulatory efficiency associated with multi-year cost of service applications. Construction, maintenance, and operating plans and budgets are of course inter-dependent and for a mature utility like THESL, deferral of end-of-life asset replacement is almost guaranteed to result in escalating maintenance costs and unplanned outages. The only effective way to manage long-term costs and customer service impacts associated with asset

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON PRELIMINARY ISSUE

management for a mature utility like THESL is to plan and execute an integrated long-term plan.

iii) A one-year COS provides rate certainty for only one year and THESL's infrastructure renewal and workforce renewal investments are long-term. A substantial portion of THESL's distribution plant is past its end-of-life. Long-term investment commitments are necessarily associated with plans that span multiple years. Large scale capital projects, mobilization and retention of multiple trades contractors, longer- term procurement contracts for better pricing, multi-year apprentice training requirements, and a host of other operational considerations, including access to capital financing, require assurance that the associated revenue from rates will be available. When the revenue risks associated with volatile markets, cost of capital and load are relatively low over a multi-year forecast period, longer-term COS applications are preferred. In the current environment and circumstances, THESL believes a three-year COS strikes the appropriate balance.

b) THESL sought to propose a mechanism which safeguards ratepayer interests while affording a measured degree of flexibility for the utility, without imposing undue regulatory burden on the Board or any other parties.

Capital expenditure programs are subject to contingencies which are impossible to forecast, including strikes and labour disruptions (not necessarily at THESL), abnormal weather, changes in applicable regulations, statutes, or administrative requirements, and other factors. Not all of these are necessarily unfavourable or such as to impede the completion of projects. In any given year, at year end THESL may

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON PRELIMINARY ISSUE

be ahead of or behind schedule with respect to its portfolio of capital projects, including capital contributions to Hydro One.

To protect the interests of ratepayers, THESL proposed, without limitation, that in the case that THESL was behind schedule, only the actual year end ratebase for the former year be taken as the opening ratebase in the subject test year for purposes of determining rates.

It is true that the Board or other parties might have concerns were it to be the case that THESL fell significantly behind on its capital programs, and nothing in THESL's proposal precludes (or could preclude) the Board requiring a hearing to address those concerns. However, THESL does not anticipate that would occur and did not see the merit in proposing that a 'symmetrical' hearing be required in the case of capital under-spending, given the protection already embodied in its proposal.

Conversely, THESL believes that it should be afforded flexibility, within reasonable limits, to advance work on its capital programs if environmental factors are conducive to that. THESL has proposed 2% of ratebase as a reasonable ceiling to permit that flexibility. Again, nothing in THESL's proposal can preclude or inhibit any Board inquiry into the capital spending above the approved amount for the prior test year.

Finally, to provide assurance to all parties that THESL regards itself as completely accountable for its capital expenditures, THESL proposed that were capital spending in the prior year to exceed the approved level plus 2% of ratebase, the default presumption would be that that capital spending would be not automatically form the

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON PRELIMINARY ISSUE

basis of opening ratebase in the following year, but would be subject to review by the Board.

c) THESL proposes that the review described directly above would not be a 're-opener' but could be confined to addressing only the question of whether the actual year end ratebase from the former year would be the appropriate opening value of ratebase in the subject test year for purposes of revenue requirement determination.

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 6:

Reference(s): 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.

RESPONSE:

a) Yes. This concern exists in direct proportion to the CEEDs of the 'rebasing' year.

b) No studies are required to support that proposition. The conclusion proceeds directly from the premises that CAPEX in the 'rebasing' year was authorized by the Board but is not reflected in the implicit revenue requirement determined on an IRM-PCI basis. As noted above, the materiality of the concern is a direct function of the magnitude of CEEDs in the 'rebasing' year. For completeness, THESL notes that the mechanism is symmetrical and the concern would apply in the opposite direction if CEEDs for a particular utility were materially negative.

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 7:

Reference(s): 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.

RESPONSE:

a) THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

b) Only one alternative rate plan, IRM, is available to THESL. THESL concluded that this rate plan is inappropriate for the reasons set out at Exhibit A1, Tab 1, Schedule 2.

RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 8:

Reference(s): A1/Tab1/Schedule 2

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

RESPONSE:

a) THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 1:

Reference(s): none provided

[For assistance of the Applicant and the Board, some of the calculations described below are set out in detail in two Excel spreadsheet models enclosed with these interrogatories.]

Please confirm that the following chart correctly calculates the distribution bill amounts of ten Ontario LDCs based on the current approved monthly customer charges and distribution volumetric rates for 2011. Please provide quantitative reasons, in as much detail as is reasonably possible within the time frames of this proceeding, explaining why the Applicant's distribution bills to customers are significantly higher than those of its peers.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

Annual Distribution Bill Comparison - Top Ten LDCs 2011 Rates
(monthly charge and volumetric rate)

Utility	*Residential*		*GS<50*		*GS>50*		*Large*		
	800 kwh	*% of Avg*	*2000 kwh*	*% of Avg*	*250 KW*	*% of Avg*	*10 MW*	*% of Avg*	*Overall Ranking*
Powerstream	$271.32	92.69%	$616.68	96.02%	$11,423.52	94.13%	$150,572.04	37.37%	80.05%
Hydro One Brampton	$253.32	86.54%	$583.32	90.83%	$8,547.36	70.43%	$308,266.20	76.52%	81.08%
Veridian	$282.72	96.58%	$569.88	88.73%	$10,687.32	88.07%	$298,353.48	74.06%	86.86%
London Hydro	$287.64	98.26%	$570.24	88.79%	$8,306.22	68.45%	$516,621.00	128.23%	95.93%
Horizon	$309.72	105.81%	$587.52	91.48%	$9,621.42	79.28%	$432,013.20	107.23%	95.95%
Kitchener-Wilmot	$278.28	95.07%	$596.04	92.81%	$14,769.48	121.71%	$333,957.24	82.89%	98.12%
Hydro Ottawa	$301.20	102.90%	$621.12	96.71%	$12,128.52	99.94%	$509,337.84	126.43%	106.49%
EnWin	$320.40	109.45%	$691.44	107.66%	$15,070.26	124.19%	$353,362.68	87.71%	107.25%
Enersource	$254.52	86.95%	$750.96	116.93%	$13,334.10	109.88%	$512,472.24	127.20%	110.24%
Toronto Hydro	$368.11	125.75%	$835.13	130.04%	$17,464.55	143.92%	$613,803.96	152.36%	138.02%
AVERAGE	$292.72		$642.23		$12,135.28		$402,875.99		

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

Witness:

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 2:

Reference(s): none provided A1/Tab1/Schedule 2

[For assistance of the Applicant and the Board, some of the calculations described below are set out in detail in two Excel spreadsheet models enclosed with these interrogatories.]

Please confirm that the following chart correctly calculates the dollar amount of PP&E per customer of the ten largest Ontario LDCs (excluding Hydro One) based on the 2010 Electricity Distributors Yearbook published by the Board. Please provide quantitative reasons, in as much detail as is reasonably possible within the time frames of this proceeding, explaining why the Applicant's PP&E per customer is significantly higher than that of its peers. Please explain, in light of the disparity in fixed assets between the Applicant and its peers, why a further expansion of capital spending is required in 2012-2014.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

PP&E per Customer

Utility	*PPE/Customer*	*% of Average*
London Hydro Inc.	$1,330	69%
Horizon Utilities Corporation	$1,420	74%
Veridian Connections Inc.	$1,484	77%
Kitchener-Wilmot Hydro Inc.	$1,699	88%
Hydro Ottawa Limited	$1,772	92%
Hydro One Brampton Networks Inc.	$1,928	100%
PowerStream Inc.	$2,116	110%
EnWin Utilities Ltd.	$2,156	112%
Enersource Hydro Mississauga Inc.	$2,295	119%
Toronto Hydro-Electric System Limited	$3,066	159%
AVERAGE	$1,927	

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 3:

Reference(s): none provided

[For assistance of the Applicant and the Board, some of the calculations described below are set out in detail in two Excel spreadsheet models enclosed with these interrogatories.]

Please confirm that the following chart correctly calculates the dollar amount of capital additions per customer of the ten largest Ontario LDCs (excluding Hydro One) based on the 2010 Electricity Distributors Yearbook published by the Board. Please provide quantitative reasons, in as much detail as is reasonably possible within the time frames of this proceeding, explaining why the Applicant's capital additions per customer for 2010 are significantly higher than those of its peers. Please explain, in light of the existing disparity in capital spending between the Applicant and its peers, why a further expansion of capital spending is required in 2012-2014.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

Capital Additions per Customer

Utility	Capex/Customer	% of Average
Horizon Utilities Corporation	$165.49	60%
London Hydro Inc.	$180.79	65%
EnWin Utilities Ltd.	$218.58	79%
Kitchener-Wilmot Hydro Inc.	$240.53	87%
Veridian Connections Inc.	$247.32	90%
Enersource Hydro Mississauga Inc.	$259.09	94%
Hydro One Brampton Networks Inc.	$265.94	96%
PowerStream Inc.	$285.99	104%
Hydro Ottawa Limited	$297.64	108%
Toronto Hydro-Electric System Limited	$601.45	218%
AVERAGE	$276.28	

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 4:

Reference(s): none provided

[For assistance of the Applicant and the Board, some of the calculations described below are set out in detail in two Excel spreadsheet models enclosed with these interrogatories.]

Please confirm that the following chart correctly calculates the dollar amount of OM&A per customer of the ten largest Ontario LDCs (excluding Hydro One) based on the 2010 Electricity Distributors Yearbook published by the Board. Please provide quantitative reasons, in as much detail as is reasonably possible within the time frames of this proceeding, explaining why the Applicant's OM&A per customer is significantly higher than that of its peers. Please explain, in light of the disparity in operating costs between the Applicant and its peers, why further large increases in operating costs are required in 2012-2014.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

OM&A per Customer

Utility	*OM&A/Customer*	*% of Average*
Kitchener-Wilmot Hydro Inc.	$147.31	71%
Hydro One Brampton Networks Inc.	$150.37	73%
Horizon Utilities Corporation	$168.41	81%
Veridian Connections Inc.	$182.72	88%
Hydro Ottawa Limited	$192.44	93%
PowerStream Inc.	$204.53	99%
London Hydro Inc.	$204.70	99%
Enersource Hydro Mississauga Inc.	$249.14	120%
EnWin Utilities Ltd.	$259.61	125%
Toronto Hydro-Electric System Limited	$311.95	151%
AVERAGE	$207.12	

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

Witness:

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 5:

Reference(s): none provided

[For assistance of the Applicant and the Board, some of the calculations described below are set out in detail in two Excel spreadsheet models enclosed with these interrogatories.]

Please confirm that the following chart correctly calculates the dollar amount of Distribution Revenue per customer of the ten largest Ontario LDCs (excluding Hydro One) based on the 2010 Electricity Distributors Yearbook published by the Board. Please provide quantitative reasons, in as much detail as is reasonably possible within the time frames of this proceeding, explaining why the Applicant's Distribution Revenue per customer is significantly higher than that of its peers. Please explain, in light of the disparity in revenues between the Applicant and its peers, why further increases in revenues are required in 2012-2014.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

Dx Revenue per Customer

Utility	*Revenue/Customer*	*% of Average*
Horizon Utilities Corporation	$382.47	75%
London Hydro Inc.	$421.07	83%
Kitchener-Wilmot Hydro Inc.	$423.49	83%
Veridian Connections Inc.	$434.20	85%
Hydro One Brampton Networks Inc.	$472.43	93%
Hydro Ottawa Limited	$493.52	97%
PowerStream Inc.	$501.23	98%
EnWin Utilities Ltd.	$594.30	117%
Enersource Hydro Mississauga Inc.	$615.66	121%
Toronto Hydro-Electric System Limited	$752.26	148%
AVERAGE	$509.06	

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

Witness:

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 6:

Reference(s): none provided

Please explain, in light of the data shown in questions 1 through 5, what the primary differences are in attributes between the Applicant and the other nine utilities listed that a) allow those utilities to control their capital spending, operating costs, and rates more effectively than the Applicant, or b) cause the Applicant to have a substantially higher underlying cost structure than its peers.

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 7:

Reference(s): Ex A1/1/1, p. 2

Please confirm that all figures in the Application are filed on the basis of Canadian GAAP, and none are filed on the basis of US GAAP (except to the extent that they produce identical results).

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 8:

Reference(s): **A1/1/1, p. 4**
A1/1/2, p. 21

Please confirm the Applicant's position that both the IRM2 and IRM3 systems established by the Board fail to provide adequately for "the need for infrastructure renewal" currently being experienced by "most utilities", including the Applicant. Please confirm the Applicant's position that the Board's IRM regime is contrary to the Fair Return Standard.

RESPONSE:

SEC has mischaracterized THESL's position with the phrasing of this question. The full text of the first reference is "The need for infrastructure renewal is not a new issue for most utilities in North America including THESL, which has highlighted this requirement before the Board in all of its recent applications." THESL does not assert that "most utilities" are currently experiencing a significant requirement for infrastructure renewal.

Nevertheless, for those (Ontario electricity distribution) utilities that are experiencing a significant need for infrastructure renewal, it is THESL's position that IRM fails to provide adequately for that need.

With respect to the Fair Return Standard, SEC again mischaracterizes THESL's position. THESL's position is not that IRM violates the Fair Return Standard in all cases; rather, it is that the Fair Return Standard is violated automatically when (material) CEEDs are

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

approved by the Board in a 'rebasing' year and that year is followed by one or more where revenue requirement is determined on the IRM-PCI basis.

In addition, for utilities experiencing significant needs for infrastructure renewal, where that infrastructure needs to be replaced at costs greater than those reflected in revenue requirement for the assets being replaced, and where revenue requirement is determined on the IRM-PCI basis, it is the case that either the Fair Return Standard is violated (if the utility is required to invest uncompensated capital), or the utility is prevented from responsibly carrying out its duties (if the utility is unable to make the required investments), or a combination of both outcomes occurs.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 9:

Reference(s): A1/1/1, p. 4

Please confirm that, on May 20, 2008, the Applicant as part of the Coalition of Large Distributors supported multi-year IRM and proposed to the Board that a capital module be included, with a 125% threshold to qualify, allowing recovery of all capital spending in excess of depreciation. Please confirm that the Applicant's proposal has been rejected by the Board in its policy document dated July 14, 2008 entitled "Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors" (the "3GIRM Report") and subsequent decisions interpreting that policy document.

RESPONSE:

The reference given does not relate to the question asked.

The document being referred to in the first sentence can be found at:
http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/46148/view/CLD-HON_supplementary_comments_20080520.PDF

That document speaks for itself, and states among other things as follows:

> Notwithstanding the improvements in the latest proposal there continue to be underlying concerns that, even with the proposed threshold, the capital investment module is still not dealing with the underlying problem of the difference in historical and current costs for asset replacement. For example, assume that a utility has depreciation in approved rates of $10 million and a Capex budget of $14.9 million to replace aging assets. That

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

Capex budget would not meet the materiality threshold and the utility would need to deal with the $4.9 million funding deficit through other means. Consequently for any utility whereby capital is 149% of base year depreciation, then the utility would still have to fund the difference in historical and current costs. If this is a financial burden, as one would expect it to be, this utility with a gap of $4.9 million will most likely seek Cost of Service rates to narrow the gap.

Otherwise, the Board's July 14, 2008 "Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors" is a matter of record and speaks for itself.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 10:

Reference(s): A1/1/2, p. 3

Please confirm it is the Applicant's position that, once any distributor files a cost of service application seeking a rate increase in excess of the IRM level of increase, a decision on whether cost of service regulation or incentive regulation should apply "cannot be made without a full hearing of the evidence", just as with any other cost of service proceeding. Please advise whether the basis of this position is a legal requirement, a regulatory policy requirement, or both, and in either case please provide the details of that justification. Please advise whether it is the Applicant's position that the Board cannot, as an alternative to looking in detail at the Applicant's forecasts, look at comparisons to other LDCs to determine whether the Applicant's levels of spending are reasonable. If this is the Applicant's position, please advise whether the basis of that position is a legal requirement, regulatory policy considerations or both.

RESPONSE:

Please see THESL response to City of Toronto Interrogatory 7.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 11:

Reference(s): A1/1/2, p. 12

Please confirm it is the Applicant's position that the 3GIRM Report is not based on "evidence upon which the Board formed the expectation" that distributors manage within the IRM revenue envelope. Please confirm that the Applicant has either not seen the February 2008 report by Pacific Economics Group entitled "Calibrating Rate Indexing Mechanisms for Third Generation Incentive Regulation in Ontario" ("PEG Report"), or believes that the PEG Report does not analyze reasonable levels of revenue and rates necessary for distributors to recover their costs.

RESPONSE:

SEC misquotes THESL and mischaracterizes THESL's position. The full text of the reference cited is as follows:

> "The Board has repeatedly stated that it *expects* utilities to be able to stay in the IRM framework and, subsequent to the initial rebasing year, have rates determined by the PCI mechanism for several years. For example, in the "Early Rebasing Letter" of April 20, 2010, the Board stated at page 1:
>
> > The Board's rate-setting policies are such that distributors are expected to be able to adequately manage their resources and financial needs during the term of their IRM plan.

However, THESL is not aware of any document issued by the Board at any time which provides the evidence upon which the Board formed the expectation described above,

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

with respect to distributors generally or with respect to THESL specifically. Since 2007, THESL has not filed a rebasing application with the Board in the expectation that rates in subsequent years would be determined by the operation of the PCI, and has never represented to the Board that a revenue requirement so determined could be adequate to meet THESL's needs given its infrastructure and workforce renewal programs."

THESL stands by this statement. Regardless of the validity, comprehensiveness, or interpretation of the PEG Report, THESL does not believe that the 3GIRM Report specifically addressed the issue of upward pressure being mechanically exerted on revenue requirement as a result of replacing end of life equipment at costs higher than those reflected in revenue requirement by the equipment being replaced, other than at page 32, where the Board made the following passing reference:

> ***Policy and Rationale***
>
> **The Board has determined that there will be an incremental capital module in 3rd Generation IR.** Distributors with an amount of capital spending that exceeds the materiality threshold may best be accommodated through rebasing. However, on balance, as all participants acknowledged, some incremental capital investment needs may arise during the IR term and the Board notes that a clearly defined modular approach is generally accepted. (underlined emphasis added)

Otherwise, THESL remains unaware of any recent empirical evidence upon which the Board formed its expectation that THESL could "adequately manage [its] resources and

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

financial needs during the term of [its] IRM plan". In fact, THESL is only aware of evidence to the contrary.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 12:

Reference(s): **A1/1/2, p. 24**
D1/7/6, p. 9

Please confirm that the Applicant is proposing capital spending for the three years 2012-2014 equal to 86% of the Applicant's net closing PP&E for 2010. Please confirm that for the ten years 2012-2014 the Applicant proposes to more than triple the net fixed asset component of its rate base. If these estimates are incorrect, please provide correct amounts.

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 13:

Reference(s): **A1/1/2, p. 30**
B1/10/1, p. 12

Please reconcile the Applicant's reported good reliability results in its Annual Information Return with the allegation that it has "in many cases failing distribution infrastructure".

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 14:

Reference(s): B1/5/1, p.2

Please provide estimates of the operating expense savings in each of the Bridge and three Test Years from the "expansion of online web tools", including but not limited to the savings associated with the diversion of telephone calls from the call centre.

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 15:

Reference(s): B1/5/1, MD&A, p. 17

Please confirm that the following remains true today: "The City owns all of the outstanding shares of the Corporation and has the power to determine the composition of the Board of Directors and influence major business and corporate decisions, including its financing programs and dividend payments".

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 16:

Reference(s): B1/10/1, p. 19

Please provide a copy of the most recent and updated Shareholder Direction and all amendments to it.

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 17:

Reference(s): B1/10/1, p. 37

Please provide the most recent consultant's report recommending "compensation levels for the NEOs".

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 18:

Reference(s): B1/10/1, p. 41

Please provide a definition and explanation of the metric "Distribution Plant Capital per Unit".

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 19:

Reference(s): C2/1/2, App. A

Please confirm that the Applicant is proposing to increase Union FTEs from current levels by 12.8% over three years, and Management/Non-Union FTEs by 16.4%.

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 20:

Reference(s): D1/3/1, p. 1

Please confirm that, at the proposed levels of distribution expenses, the Applicant would have:

a) A compound annual growth rate in distribution expenses (excluding Amortization) of 9.4% per year from 2008 to 2011 ($182.6 million to $239.3 million);

b) A compound annual growth rate in distribution expenses (excluding Amortization) of 7.6% per year from 2011 to 2014 ($239.3 million to $298.7 million);

c) A compound annual growth rate in distribution expenses (excluding Amortization) of 8.6% per year from 2008 to 2014 ($182.6 million to $298.7 million, an increase of $116.1 million per year).

d) A compound annual growth rate from 2008 to 2014 of:

   i) 5.9% for Maintenance Expenses;

   ii) 11.8% for Administrative and General Expenses; and

   iii) 12.0% for Operations Expenses

RESPONSE:

a) to d) THESL declines these interrogatories for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 21:

Reference(s): D1/3/1, p. 1

Please provide a dollar estimate, by category of Distribution Expense, of the impact of productivity initiatives at the utility in reducing the increases from 2008 to 2014 to the amounts proposed. If possible, please provide these estimates by year, including both past and future years.

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 22:

Reference(s): D1/3/1, p. 1

Please explain why the Applicant needed a 9.6% per year past annual increase in Distribution Expenses when all other Ontario LDCs (excluding Hydro One) had an increase in their Distribution Expenses from $745.2 million to $834.1 million (based on 2010 vs. 2008 Electricity Distributors' Yearbook data), a compound annual growth rate of 5.8% over those two years. Please explain why, in light of its past history of high OM&A increases, the Applicant believes it needs to continue at a 7.6% per year rate despite that level also being well above industry norms.

RESPONSE:

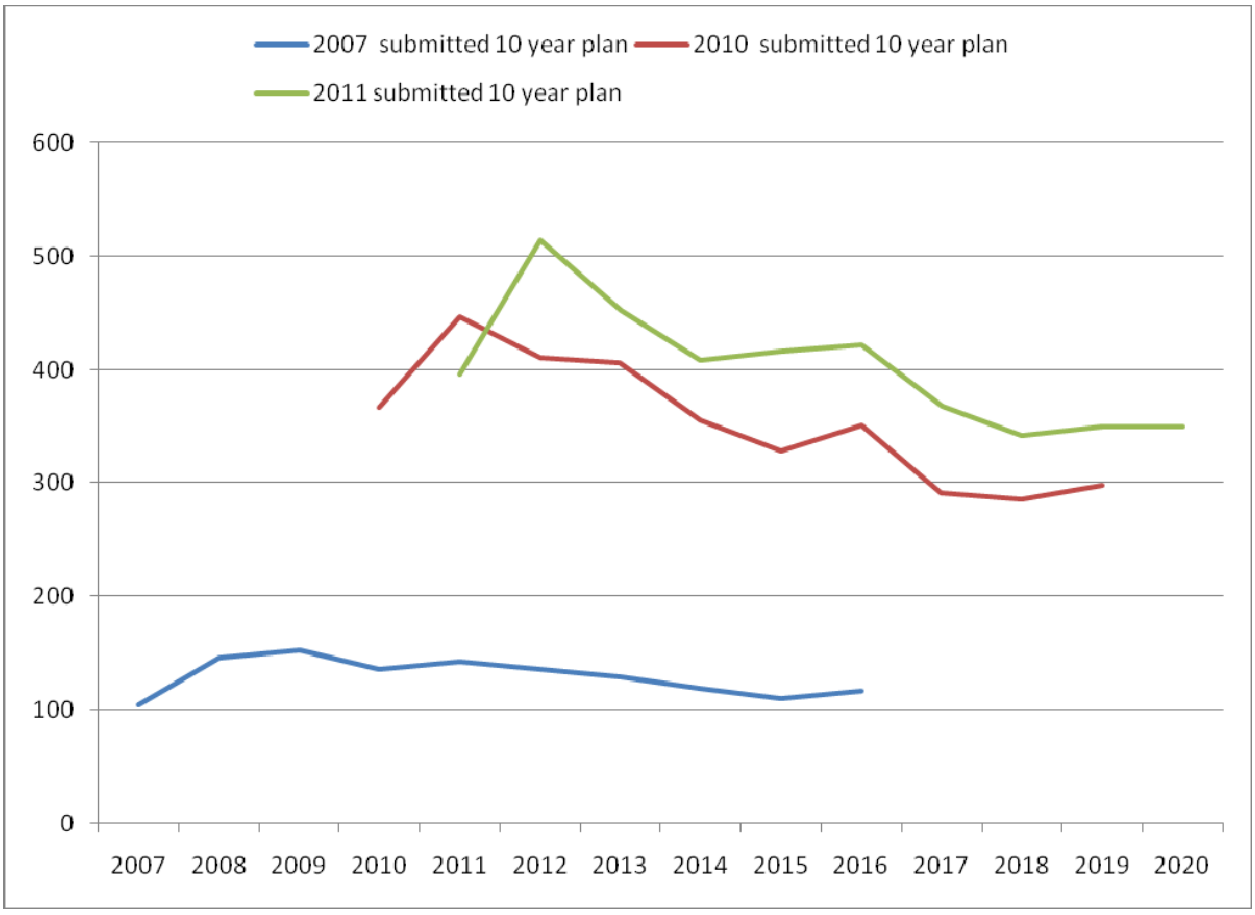
THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

INTERROGATORY 23:

Reference(s): D1/7/6, p. 9

Please update the attached table provided by the Applicant in EB-2010-0142 [Ex. R1/9/49, p. 2 in that proceeding], by adding a further line showing the proposed capital spending in the 2012 10 year plan.



Witness:

RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

RESPONSE:

THESL declines this interrogatory for the reasons set out in the Scope and Basis for Responses Preamble at Exhibit R1, Tab 0, Schedule 1.