K4.6

→ THESL on IRM for 2012
→ Bd. should allow a process to proceed in adv. of 2013 yr. - Board may have more and better information - to review

EB-2011-0144

THE ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF Toronto Hydro-Electric System Limited for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2012, May 1, 2013 and May 1, 2014.

BOOK OF MATERIALS

ARGUMENT OF THE VULNERABLE ENERGY CONSUMERS COALITION

RE: PRELIMINARY THRESHOLD ISSUE

NOVEMBER 17, 2011

→ Prelim. threshold - not met
→ Put on IRM
→ Further proceeding re: capital plan - they do not withdraw this (current) appₙ - impose 3GIRM on THESL - but look @ capex

Ontario Energy Board

Commission de l'énergie de l'Ontario

Ontario

EB-2011-0144

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

AND IN THE MATTER OF an application by Toronto Hydro-Electric System Limited for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2012, May 1, 2013 and May 1, 2014.

PROCEDURAL ORDER No. 1

Toronto Hydro-Electric System Limited ("THESL") filed an application with the Ontario Energy Board (the "Board") on August 26, 2011 under section 78 of the *Ontario Energy Board Act, 1998*, (the "Act") seeking approval for changes to the rates that THESL charges for electricity distribution, to be effective May 1, 2012, May 1, 2013 and May 1, 2014. The Board has assigned the application File Number EB-2011-0144.

The Board received 11 requests for intervenor status and five requests for observer status. No objections were received. The Board approves these intervention and observer requests. A list of the intervenors is attached as Appendix A.

The following parties also applied for cost award eligibility: Association of Major Power Consumers in Ontario, Building Owners and Managers Association Toronto, City of Toronto, Consumers Council of Canada, Energy Probe, Pollution Probe, School Energy Coalition and Vulnerable Energy Consumers Coalition. No objections were received.

The Board finds that each of these parties is eligible for a cost award under the Board's *Practice Direction on Cost Awards* (the "Practice Direction") except for the City of Toronto which the Board finds is ineligible for costs as it is the indirect sole shareholder of the applicant through its ownership of Toronto Hydro Corporation, THESL's parent

> multi-year rate setting plan, including the acceptance of THESL's non-conforming applications in the past, the Board considers the April 20, 2010 letter to be a clear and explicit statement of the Board's expectations of distributors on a going forward basis.
>
> Given this clear and direct communication to THESL and other distributors regarding the Board's expectations, the Board does not accept THESL's view that it is reasonable for it to have approached its 2011 application with an expectation that it would also be making a cost of service application in 2012. The Board is not persuaded by THESL's submissions that the Board's stated rate setting policies did not apply to it.
>
> ....
>
> The Board makes no determination as to what THESL is required to file in its subsequent rate application. It is for THESL to determine the manner in which it chooses to apply for any adjustment to its rates for 2012. The acceptability of the application will be determined by the Board at that time.
>
> The Board notes that THESL is not included in the list of expected cost of service applicants for 2012, as per the letter issued by the Board on March 1, 2011.
>
> Should THESL file a cost of service application for 2012 rates, the expectations of the Board are clear. As set out in the April 20, 2010 and March 1, 2011 letters, a distributor that seeks to have its rates rebased earlier than scheduled must justify, in its cost of service application, why early rebasing is required and why and how the distributor cannot adequately manage its resources and financial needs during the remainder of the 3rd generation IRM plan term.

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.

returns) are the same as proposed for each year and that expenditures, costs, and revenue offsets are as proposed for each year. In this scenario, the effects of the deficiency in revenue between the proposed BDRR amounts and the PCI BDRR amounts are borne only by equity returns and taxes. Table 5 depicts the resulting impacts on equity returns, ROE, and PILs under these assumptions.

Table 5: ROE Consequences of IRM-PCI

	2011 Approved	2012	2013	2014
Equity Returns under PCI BDRR	$88,068,069	$52,441,342	$5,456,501	$(47,784,377)
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	$796,413	$287,319	0

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.

SUMMARY

The results obtained through this scenario analysis are not speculative. Rather, they follow from the simple mechanics of revenue requirement determination, when those concepts and mechanics are applied to THESL's proposed costs for the three test years.

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 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.

Witness:

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

Witness:

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

INTERROGATORIES OF VULNERABLE ENERGY CONSUMERS COALITION

INTERROGATORY 35:

Reference(s): **Exhibit C1 Tab 6 Schedule 1**
Exhibit C1 Tab 4 Schedule 1
Exhibit F1 Tab 1 Schedule 2

The above three references describe THESL's Asset Management Approach, Business Planning Process and Maintenance Approach, the products of which are illustrated in the application and summarized at Exhibit D1 Tab 7 Schedule 1 page 16 Table 2 (total Capital Budget of $498M) Exhibit F1 Tab 1 S1 page 3 (total Distribution OM&A Budget of $193.3M) and Exhibit F2 Tab 1 Schedule 1 page 2 Table 1 (total Administrative and General expenses of $83.2M).

In EB-2009-0096 at Exhibit H Tab 7 Schedule 39 it was noted that during the course of Hydro One Inc. comparable planning process for its Distribution Rate application it identified what it referred to as a minimal level of capital and OM&A spending for each of its categories of spending, and was able to reproduce a comparison of the as filed budget and the determined minimal level spending considered as part of the budgeting and business planning process.

a) In developing the as filed budgets summarized by Exhibit D1 Tab 7 Schedule 1 page 16 Table 2 (total Capital Budget of $498M) Exhibit F1 Tab 1 S1 page 3 Table 2 (total Distribution OM&A Budget of $193.3M) and Exhibit F2 Tab 1 Schedule 1 page 2 Table 1 (total Administrative and General expenses of $83.2M), does THESL develop and consider [in] its planning process a level of spending for each (or any) of the portfolios within the Capital Budget, Distribution OM&A Budget and Administrative and General expenses areas similar or comparable to the minimum

INTERROGATORIES OF VULNERABLE ENERGY CONSUMERS COALITION

level spending developed by Hydro One Inc. and described in EB-2009-0096? We refer THESL to the cites within Exhibit H Tab 7 Schedule 39 in EB-2009-0096 for references to the concept behind Hydro One Inc.'s minimum level spending.

b) To the extent that THESL does develop and consider a level of spending similar or comparable to the minimum level spending described by Hydro One Inc., please produce a table comparing that minimum level of spending to the applied for spending at the portfolio level of detail represented by Exhibit D1 Tab 7 Schedule 1 page 16 Table 2, Exhibit F1 Tab 1 S1 page 3 Table 2 and Exhibit F2 Tab 1 Schedule 1 page 2 Table 1 for the test year, similar to the tables produced by Hydro One Inc. in EB-2009-0096 at Exhibit H Tab 7 Schedule 39 question a).

c) If THESL does not develop minimum level spending (or comparable) budgets for consideration in its planning process, please confirm that THESL must necessarily be unable to advise the Board whether, in the face of reductions by the Board to the applied for budgets, THESL is either able or unable to operate in the test year within the bounds of acceptable risk without first reviewing the impacts of its approved budgets from scratch.

RESPONSE:

a) THESL develops budgets that are considered to be the required capital, O&M, and A&G necessary to maintain safe, reliable and efficient electricity service. The process THESL follows is described in Exhibit C1, Tab 4, Schedule 1, Appendix A. During the course of developing budgets, a number of iterations occur until a balance is achieved that meets established goals and objectives. THESL is not familiar with the referenced minimum level spending approach.

b) See a) above.

INTERROGATORIES OF VULNERABLE ENERGY CONSUMERS COALITION

c) In its 2008 Decision with Reasons for EB-2007-0680, the Board stated at page 38, "the Board does not approve or disapprove any specific line item within the Company's claim. The Company can apply to funds provided in the envelope where it determines it ought to go." This approach has allowed THESL the flexibility necessary to defer or re-shape programs, transfer budget amounts, or adjust allocations or contracting in a way that allows THESL to operate within acceptable risks.

Ontario

ONTARIO ENERGY BOARD

FILE NO.:	EB-2011-0144	
VOLUME:	2	
DATE:	November 11, 2011	
BEFORE:	Cynthia Chaplin	Presiding Member
	Marika Hare	Member
	Paula Conboy	Member

MR. BUONAGURO: Thank you. I just wanted to make sure I understood the definition.

Now, I'm going to start briefly with Exhibit A1, tab 1, schedule 2, page 28, which is table 5. I'm just going talk about it. You can pull it up if you would like, but I'm just talking about it.

And that's the table that basically says, if you fit what we want to do in our cost of service application over the next three years under an IRM regime, these are the consequences, culminating in a negative ROE in 2014 of negative 3.1 percent. Okay? That's how I understand that table; is that correct?

MR. McLORG: I think that's fair.

MR. BUONAGURO: Okay. And my understanding from the text around the table and the testimony is that that's -- and I've referred to it in VECC IR No. 2, which is Exhibit R1, tab 6, schedule 2, as hypothetical, because my understanding is if that were to happen, if you were under IRM and -- well, if you were put under IRM for the next three years, you would never actually do that plan. The plan that's implicit or explicit in the cost of service application that's before the Board, you would never do that under IRM?

MR. HAINES: That's right. You know, it's a hypothetical scenario because -- for two reasons, as you heard Mr. Couillard. Our bonds will be called before then, and so you would never get to that circumstance, as well as the fact that the markets wouldn't allow to us get there immediately.

And so it's very unlikely that model would happen.

MR. BUONAGURO: Thank you.

So that was my understanding, and so that's why we asked our Interrogatory No. 2, which I gave the reference for already, and asked for an update to table 5 based on what you would actually do under IRM.

MR. HAINES: Yeah.

MR. BUONAGURO: And for the first part we were referred to Board Staff Interrogatory No. 3, which is Exhibit R1, tab 1, schedule 3, which you actually went through with Board Staff briefly.

And so -- and I just wanted to make sure I understood.

So my understanding is that that table, which, based on the assumptions that you had to make in order to come up with the table, suggests that your planned spending over the next three years under IRM, based on your assumptions, would result in an effective ROE of approximately 8.1 percent.

So we had that conversation. I just wanted to --

MR. HAINES: That's right.

MR. BUONAGURO: -- confirm it.

MR. HAINES: Assuming we spend at the allowed amount.

MR. BUONAGURO: Right. So there could be variances; you could have emergency OM&A that you have to spend or something like that. But within certain bounds, that's what you would expect to do under IRM, if that's ultimately what happened in this application? That's what that table represents?

MR. HAINES: Subject to what I described earlier. There are some costs that we haven't talked about yet, in terms of the recovery of those costs.

But all things being equal, subject to that one condition, that's right.

MR. BUONAGURO: Okay. So -- okay.

MR. McLORG: And just to reiterate, Mr. Buonaguro, that scenario is basically the one where we suffer a diminution of equity returns as a result of the unrecognized rate base from 2011.

MR. BUONAGURO: Okay. And when you say that, I think what you're telling me is that -- I think you may have already talked about this, but the difference between the embedded 9.58 percent ROE and the 8.1 percent effective ROE is largely, if not entirely, based on the fact that certain capital expenses in 2011 haven't been --

MR. HAINES: $200 million.

I stand corrected. 120 million.

MR. BUONAGURO: Okay. Thank you.

And then my understanding is that -- and this is also in the IR, the VECC IR No. 2 -- you talk about the fact that you can't actually tell us right now precisely what you would do with the money that's implicit in -- or the spending that's implicit in this table, because you haven't actually planned for IRM; you've planned for the cost of service and presented cost of service.

MR. HAINES: Right.

MR. BUONAGURO: But you would work backwards from whatever's in here that produces an 8.1 percent effective ROE, to come up with a plan?

MR. HAINES: I think that's very true on a detailed level, but we have sketched out -- I'll call it sketched out -- back of the envelope, what we would do. And maybe - would it be helpful for me to describe that or do you have a clear understanding of that?

MR. BUONAGURO: I think you've talked about it in certain parts. I don't need it for my purposes, but I think I might hear that in redirect.

Thank you.

Which means I only really have one more question or one set of questions, and it has to do with Exhibit R1, tab 6, schedule 4, which is another one of our IRs. It's an IR that was answered the second time around.

And we were asking about the -- we were asking you to estimate the value of obsolete facilities and real estate. And I want to make sure I understood the answer.

At page 2 of the response -- and normally would put this on the screens but I have a very short cross-examination today, so I thought I wouldn't do it. I'm sorry if people were expecting that.

At the second full paragraph, it says:

> "For THESL's 2012 rates application, the net after-tax gain on sale from surplus properties is forecast to be nil, as the properties that have been identified as potentially surplus could

Ontario

ONTARIO ENERGY BOARD

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BEFORE: Cynthia Chaplin Presiding Member

Marika Hare Member

Paula Conboy Member

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capital and gross it up by 20 percent and that's what it's going to be.

MR. SHEPHERD: Okay, thank you. Those are all our questions.

MS. CHAPLIN: Thank you.

QUESTIONS BY THE BOARD

MS. HARE: Mr. Haines, you stated rather emphatically that a rebasing year is not a cost of service year.

MR. HAINES: Yes.

MS. HARE: Could you explain the differences, please?

MR. HAINES: Yes, thank you very much. I'm happy to. If we think about a cost of service year and the circumstances that you file for that mechanism, you know, let's just for simplicity say it's a one-year process. And so you're figuring out your costs for the next year. You're looking at your priorities of capital and expenses and other matters, and staffing changes and all of that good stuff, and you're putting forward your best estimate as to what a spend will look like.

And you know implicitly within that there's a regulatory lag of six months and that, you know, there will be certain costs that you'll incur, but you'll have another opportunity to deal with those 12 months later. I'm describing a case of a one-year application.

And so there's an ongoing routine, a cycle to it. And so you plan your costs on a smoothing base, and so you might do projects for multiple years and you may have initiatives that cross over between year to year, and so on so forth.

One of the issues that we have around the IRM model, though, it's different than that. The capital spend has to follow a different pattern.

And so the simplest way I could put it is by way of a small example. So let's assume that Toronto Hydro needs $600 million, is what our evidence shows, for capital renewal, and we get 140 the first year. So we spend the 140 in the best way we know how. And for $450 million worth of capital projects with customers' lights going out, we say to them, Look, we're simply unable to get to this now. We will put this in the pile for next file.

And the next year comes by and the same story happens, and the next year comes by and the same story happens.

So you get to this rebasing year. So how do you plan your company's expenditures during that rebasing year? Well, now you have to catch up that deficiency in capital that was not able to be done during that cycle.

And so in our case, the combination of the lag from last year, the '11, the shortfall from '12, '13 and '14, and what should be spent in '15, all piles up and it becomes 2.2 billion.

That has to be spent that year, because there's no other time that that would be -- there's no other catch-up moment, and so you deliver a $2.2 billion plan, of which half of it has cost recovery; right?

And so the regulatory lag extends out, as we've talked about, to 2019 before that opportunity comes about again.

So that's different than a cost of service filing that you say, Okay, we are not going to have this huge bubble event. We're not going to downsize the company for three years, and then try to ramp up for a year, and then downsize it again.

And so it's what's vastly different.

I'd like to just turn our attention to how do you -- I will call it regulatory right-sizing, and I don't mean that flippantly. It's just, how do you modify -- how do you go between these mechanisms?

We're trying to run a long-term business. We plan resources and capital, you know, access to capital and other things to achieve that.

So what would we do in an IRM model if we had to live with $140 million? Well, we would have to look at our capital resources and say, Okay, we've got too many people. We've got too many resources. You know, we've got resources to do $400 million and building resources to do 600 million. So we don't need all these resources.

So the easy one is to say, Okay, we have a contractor community. We will terminate those contracts. Five hundred or so people become unemployed. Companies who have invested, you know, 350,000 for a truck become idle, and they take their work elsewhere. Without doubt, this is the -- the phenomenon of capital requirements is well known. And they will move their resources elsewhere.

Then we look at our own embedded resources, and we say: Okay. Hang on a minute.

As I described this morning, we have enough resources to do $260 million of capital. We only have 140 million. In fact, when we look at that 140, we probably will only have about 50 to 80 million for the kind of plant that we're talking about.

So we need to now do a downsizing of Toronto Hydro's permanent employees.

So our best estimates are that we will have about 300 terminations from our trades group. Well, our collective agreement is like everybody else's in the world; it's a seniority-based collective agreement. So what does that mean? That means, you know, the oldest stay and the youngest go.

So for the last five years, we've been agreeing to invest in the renewal of our employees and training new, young workers to be the workers of the future.

So they're all gone, and somebody else gets the benefit of everything the Toronto Hydro customers have been paying for.

But it goes much deeper than that. You know, our expectation is probably up to about 20 years of service would be let go in this model. And so what you end up with is a workforce of about 450 tradespeople, all of which have less than five years of remaining service. In fact, our numbers show that we'll have 166 left of them by the time we get to rebasing.

So now you've got a model that -- you've got no workforce left. You've got no contractor community left.

You've incurred something between 50 and $60 million to regulatory right-size, which we haven't talked about where that's coming from yet. All for the purpose of being put into this model, right?

And so how does that get recovered? So if it's $60 million, it too has to go into that rebasing year. Our numbers show something like a 40 percent rate increase on the rebasing year, right? To account for all of these mechanical things that happen in the IRM model.

So instead of taking a cost of service -- which is a, you know, long-term, systematic, structural approach to a long-term problem -- it is a start/stop, start/stop. You know, I don't want to get too cute, but it's equivalent to having your birthday on February 29th. Once every four years, you have a great time, but between, you have no birthday. You know, there will be this start/stop every cycle.

You can't run the company this way.

And so that's why I see the rebasing being so vastly different than a cost of service, because it starts from a completely different place.

MS. CHAPLIN: Thank you. I have two -- a few questions to the panel.

You've explained that one of the key drivers is the magnitude of the spending that is, in your view, now required, and that you have considered the pacing of that spending and that's part of what led to the settlement agreements that you reached in prior proceedings.

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Ontario

ONTARIO ENERGY BOARD

FILE NO.:	EB-2011-0144

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	Marika Hare	Member
	Paula Conboy	Member

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the other utilities and their unique circumstance for this to be a valid comparison; is that right, Mr. Haines?

MR. HAINES: That's my position, yes.

MR. BLUE: Okay. And again, Mr. McLorg, would that sort of an analysis, in your view, be outside the scope of an IRM methodology rate-setting proceeding?

MR. McLORG: I believe it would be, Mr. Blue.

MR. BLUE: Thank you, panel. Those are my questions.

MS. CHAPLIN: Thank you, Mr. Blue.

Mr. Brett, I have you next on my list.

CROSS-EXAMINATION BY MR. BRETT

MR. BRETT: Thank you.

First question, panel, is I just want to confirm that you understand my characterization of this proceeding.

My view of this is that you're seeking a decision by the Board in this preliminary proceeding to have your cost of service application heard, that you're not seeking any assurances from the Board that you will get one year, two years or three years of approval, nor are you seeking any assurances about a particular revenue requirement.

What you're really here to do is to ask the Board to hear your case?

MR. HAINES: That's absolutely correct.

MR. BRETT: If you turn to -- thank you. If you turn to R1, tab 3, schedule 3, now, that is BOMA's interrogatories, so schedule -- tab 3, schedule 3, page 2.

MR. McLORG: We have that.

MR. BRETT: Do you have that?

K2.7

Annual Distribution Bill Comparison - LDCs with Large Users - 2011 Rates
(monthly charge and volumetric rate)

Utility	*Residential*		*GS<50*		*GS>50*		*Large*		*Overall*
	800 kwh	*% of Avg*	*2000 kwh*	*% of Avg*	*250 KW*	*% of Avg*	*10 MW*	*% of Avg*	*Ranking*
Peterborough	$252.12	85.44%	$569.28	94.01%	$10,186.56	90.29%	$162,788.76	47.82%	79.39%
Kingston Hydro	$286.80	97.19%	$545.16	90.02%	$9,009.12	79.85%	$180,932.16	53.15%	80.06%
Erie Thames	$291.24	98.70%	$443.28	73.20%	$5,931.30	52.57%	$355,501.92	104.43%	82.23%
Welland	$308.16	104.43%	$501.36	82.79%	$8,273.76	73.34%	$258,706.32	76.00%	84.14%
Powerstream	$271.32	91.95%	$616.68	101.84%	$11,423.52	101.25%	$150,572.04	44.23%	84.82%
Hydro One Brampton	$253.32	85.85%	$583.32	96.33%	$8,547.36	75.76%	$308,266.20	90.56%	87.12%
E.L.K.	$209.40	70.96%	$540.72	89.29%	$13,736.28	121.75%	$258,706.32	76.00%	89.50%
Woodstock	$361.92	122.65%	$633.36	104.59%	$10,044.42	89.03%	$162,788.76	47.82%	91.02%
Oshawa	$219.48	74.38%	$513.48	84.79%	$11,770.02	104.33%	$362,548.44	106.50%	92.50%
Guelph	$318.36	107.89%	$521.52	86.12%	$11,067.78	98.10%	$272,059.44	79.92%	93.01%
Veridian	$282.72	95.81%	$569.88	94.11%	$10,687.32	94.73%	$298,353.48	87.65%	93.07%
Milton	$310.08	105.08%	$592.68	97.87%	$8,303.64	73.60%	$333,010.20	97.83%	93.60%
Cambridge North Dumf.	$273.96	92.84%	$441.12	72.84%	$12,195.96	108.10%	$348,099.72	102.26%	94.01%
Festival	$334.80	113.46%	$694.44	114.68%	$9,452.10	83.78%	$246,349.92	72.37%	96.07%
Oakville	$294.48	99.79%	$724.80	119.69%	$12,286.50	108.90%	$262,744.92	77.19%	101.39%
Horizon	$309.72	104.96%	$587.52	97.02%	$9,621.42	85.28%	$432,013.20	126.91%	103.54%
London Hydro	$287.64	97.48%	$570.24	94.17%	$8,306.22	73.62%	$516,621.00	151.77%	104.26%
Kitchener-Wilmot	$278.28	94.30%	$596.04	98.43%	$14,769.48	130.91%	$333,957.24	98.10%	105.44%
EnWin	$320.40	108.58%	$691.44	114.18%	$15,070.26	133.58%	$353,362.68	103.81%	115.04%
Hydro Ottawa	$301.20	102.07%	$621.12	102.57%	$12,128.52	107.50%	$509,337.84	149.63%	115.44%
Bluewater Power	$342.72	116.14%	$693.72	114.56%	$12,280.92	108.85%	$472,671.72	138.85%	119.60%
Enersource	$254.52	86.25%	$750.96	124.01%	$13,334.10	118.19%	$512,472.24	150.55%	119.75%
Waterloo North	$351.36	119.07%	$696.36	114.99%	$14,875.74	131.85%	$464,129.64	136.35%	125.57%
Toronto Hydro	$368.11	124.75%	$835.13	137.91%	$17,464.55	154.80%	$613,803.96	180.31%	149.44%
AVERAGE	$295.09		$605.57		$11,281.95		$340,408.26		100.00%

K2.8

Annual Distribution Bill Comparison - LDCs over 30,000 Customers - 2011 Rates
(monthly charge and volumetric rate)

Utility	*Residential*		*GS<50*		*GS>50*		*Large*		*Overall*
	800 kwh	*% of Avg*	*2000 kwh*	*% of Avg*	*250 KW*	*% of Avg*	*10 MW*	*% of Avg*	*Ranking*
Thunder Bay	$237.60	80.85%	$529.08	83.71%	$6,921.24	56.62%	$0.00	0.00%	73.73%
Peterborough	$252.12	85.79%	$569.28	90.07%	$10,186.56	83.34%	$162,788.76	43.42%	75.65%
Powerstream	$271.32	92.32%	$616.68	97.57%	$11,423.52	93.46%	$150,572.04	40.16%	80.88%
Hydro One Brampton	$253.32	86.20%	$583.32	92.29%	$8,547.36	69.93%	$308,266.20	82.22%	82.66%
Brantford	$267.84	91.14%	$448.68	70.99%	$11,238.60	91.94%	$0.00	0.00%	84.69%
Oshawa	$219.48	74.68%	$513.48	81.24%	$11,770.02	96.29%	$362,548.44	96.70%	87.23%
Veridian	$282.72	96.20%	$569.88	90.16%	$10,687.32	87.43%	$298,353.48	79.58%	88.34%
Guelph	$318.36	108.33%	$521.52	82.51%	$11,067.78	90.55%	$272,059.44	72.56%	88.49%
Cambridge North Dumf.	$273.96	93.22%	$441.12	69.79%	$12,195.96	99.78%	$348,099.72	92.84%	88.91%
Burlington	$303.84	103.39%	$626.28	99.09%	$9,362.58	76.60%	$0.00	0.00%	93.02%
Oakville	$294.48	100.20%	$724.80	114.67%	$12,286.50	100.52%	$262,744.92	70.08%	96.37%
Chatham Kent Hydro	$297.84	101.35%	$667.56	105.62%	$10,283.76	84.13%	$0.00	0.00%	97.03%
Horizon	$309.72	105.39%	$587.52	92.95%	$9,621.42	78.71%	$432,013.20	115.23%	98.07%
London Hydro	$287.64	97.88%	$570.24	90.22%	$8,306.22	67.95%	$516,621.00	137.79%	98.46%
Kitchener-Wilmot	$278.28	94.69%	$596.04	94.30%	$14,769.48	120.83%	$333,957.24	89.07%	99.72%
PUC Distribution	$249.72	84.97%	$605.64	95.82%	$14,899.92	121.90%	$0.00	0.00%	100.90%
Hydro Ottawa	$301.20	102.49%	$621.12	98.27%	$12,128.52	99.22%	$509,337.84	135.85%	108.96%
EnWin	$320.40	109.02%	$691.44	109.39%	$15,070.26	123.29%	$353,362.68	94.25%	108.99%
Sudbury	$310.08	105.51%	$697.92	110.42%	$14,657.52	119.91%	$0.00	0.00%	111.95%
Enersource	$254.52	86.61%	$750.96	118.81%	$13,334.10	109.09%	$512,472.24	136.68%	112.80%
Bluewater Power	$342.72	116.62%	$693.72	109.76%	$12,280.92	100.47%	$472,671.72	126.07%	113.23%
Whitby	$342.24	116.46%	$703.20	111.26%	$14,049.48	114.94%	$0.00	0.00%	114.22%
Niagara Peninsula	$338.16	115.07%	$762.84	120.69%	$14,662.20	119.95%	$0.00	0.00%	118.57%
Waterloo North	$351.36	119.56%	$696.36	110.17%	$14,875.74	121.70%	$464,129.64	123.79%	118.81%
Newmarket-Tay	$313.80	106.78%	$809.76	128.11%	$15,717.54	128.59%	$0.00	0.00%	121.16%
Toronto Hydro	$368.11	125.26%	$835.13	132.13%	$17,464.55	142.88%	$613,803.96	163.71%	140.99%
AVERAGE	$293.88		$632.06		$12,223.43		$374,929.56		

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that was incorrect?

MR. McLORG: Well, I can't say how you arrived at the number.

MR. SHEPHERD: Okay. So then I want to -- the other question I want to ask about this is: Am I right in understanding that, on this table, all of the utilities that you would expect to compare yourself to, that would be fair to compare yourself to, will be on these tables somewhere?

MR. HAINES: No. I think I said this morning that after an exhaustive amount of work for two years of input, it was determined that Toronto Hydro could not be compared against these other utilities. And so we're not going to say now that this is the comparator group.

MR. SHEPHERD: I'm asking whether -- if there is a comparator group, it's got to be on here?

MR. HAINES: I think it's probably Chicago and LA and others that look similar to what we look like when we think about the design and operation of our distribution plant.

I do not agree, if we look at our table and I look down to the one that would represent sort of the medium point - I think it's Sarnia Hydro or something - that we are comparable to Sarnia Hydro when comparing our costs of organizations against theirs.

MR. SHEPHERD: Sarnia?

MR. HAINES: Well, I was looking at PUC -- isn't that -- or is that --

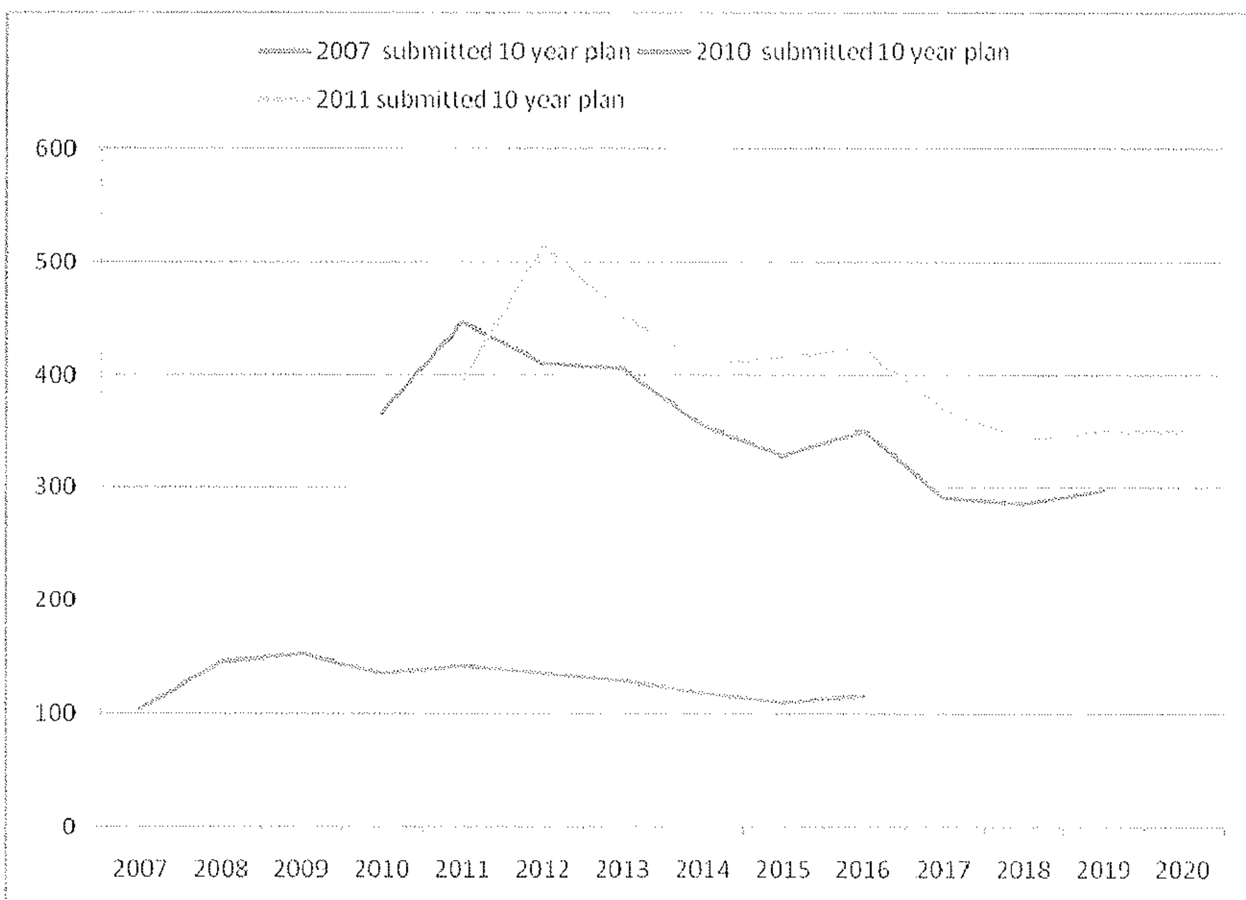
MR. SHEPHERD: That's Sault.

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.



RESPONSES TO SCHOOL ENERGY COALITION INTERROGATORIES ON PRELIMINARY ISSUE

RESPONSE:

Figure 1 illustrates the update to the original figure provided within EB-2010-0142 (Exhibit R1, Tab 9, Schedule 49, p. 2 in that proceeding). This figure includes a new plotted line (EDCP 2012 – 2021) representing the proposed capital spending within the 2012-2021 Electrical Distribution Capital Plan (EDCP). Capital expenditures associated with the Stations Infrastructure portfolio are not included as part of this plotted line, as these expenditures are included within the Facilities budget.

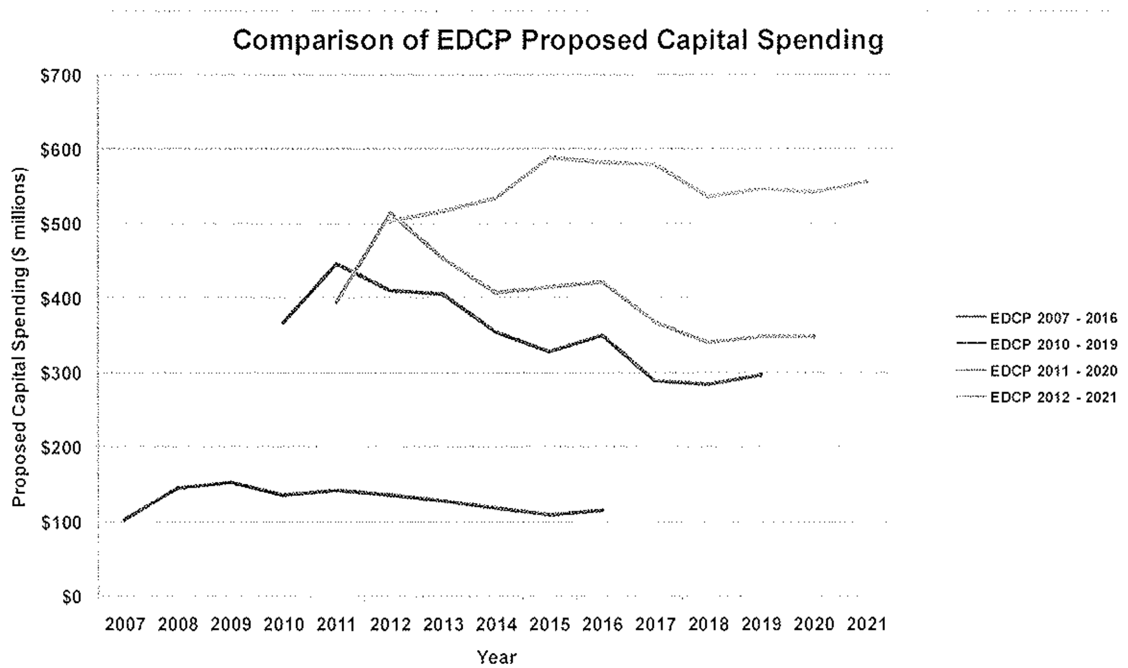


Figure 1: Comparison of EDCP Proposed Capital Spending