October 15, 2014

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

Re: EB-2014-0116 – Toronto Hydro-Electric System Limited – Custom Rate Application – 2015-2019

Please find, attached interrogatories for Toronto Hydro-Electric System Limited from the Consumers Council of Canada regarding the above-referenced proceeding. Please feel free contact the undersigned if you have questions.

Yours truly,

Julie E. Girvan

Julie E. Girvan

CC: Toronto Hydro, Regulatory Affairs
Crawford Smith, Torys
All Parties

INTERROGATORIES FOR TORONTO HYDRO – ELECTRIC SYSTEM LIMITED

EB-2014-0116 – RATES 2015–019

FROM THE CONSUMERS COUNCIL OF CANADA

EXHIBIT 1A – ADMINISTRATION AND FRAMEWORK

CCC.1

Please provide all materials provided to Toronto Hydro's Board of Directors and Senior Management regarding the Application and underlying budgets and business plans. Please also provide all Business Plans relevant to this Application.

CCC.2

Please provide all correspondence between Toronto Hydro and the City of Toronto regarding this Application. Did the City of Toronto "approve" the Application and the resulting rates? If not, why not?

CCC.3

(Ex. 1A/T2/S1/p. 4)

The evidence states that much of Toronto Hydro's proposed work has been reviewed and validated by experts and that Toronto Hydro has filed over a dozen third party reports in the application.

a) Please provide a complete list of all of the reports, which sets out for each one, the nature of the work and the contractor, costs incurred to date and the total expected cost. How does Toronto Hydro propose that these costs be recovered?;
b) Please explain, in detail, how Toronto determined which areas of the application should be reviewed and validated by external experts and which areas could be reviewed internally;
c) Did Toronto Hydro develop a budget for this work? If so, please indicate what that budget was and how was this budget developed. If now, why not?;
d) Please indicate whether each piece of work was subject to an RFP process. In those cases where there was no RFP please explain why.

CCC.4

(Ex. 1A/T2/S1/p. 4)

The evidence states that the plans and proposals that Toronto Hydro has put forward in this application focus on delivering value-for-money to its customers. Please explain what is meant by "value-for-money" in this context.

CCC.5

(Ex. 1A/T2/ S1/pg7)

"Toronto Hydro's distribution system includes a large and growing backlog of assets that are operating beyond their expected useful lives –an estimated 26% by 2015. If the utility were to invest in a minimal and reactive way (i.e., run-to-failure), this number is forecast to reach 32% by 2020 and reliability would likely deteriorate. (Toronto Hydro projects that a run-to-failure approach would result in SAIFI (System Average Interruption Frequency Index) worsening by approximately 30% and SAIDI (System Average Interruption Duration Index) worsening by approximately 24% from 2015-2019."

a) Please provide the source of the "run-to failure" percentages.
b) Please provide the source of the changes to the SAIFI and SAIDI percentages above.

CCC.6

(Ex.1A/T2/ S1/pg10/22)

Pg. 10 "Toronto Hydro's approach to the planning that underlies this application entailed: (a) developing a proposed capital program that balances the needs of the distribution system with a level of rate increases that customers accept; and (b) building an Operations, Maintenance & Administration ("OM&A") plan that, following rebasing, requires the utility to operate with funding that is less than inflation for non-capital expenditures."

Pg. 22 "Toronto Hydro's OM&A expense for the test year is $271.1 million, which represents an increase of $33.1 million, or 13.9%, from the utility's last rebasing in 2011. This translates into an average annual increase of approximately 3.3% over the 2011-2015 timeframe."

a) Is this average increase of 3.3% over the 2011-15 timeframe not above inflation?

CCC.7

(Ex.1A/T2/ S1/pg13)

"Toronto Hydro serves a broad and diverse customer base, with which it engages on a regular basis through ordinary-course interactions. In addition to these ordinary-course

interactions, it reached out to its customers regarding the utility's capital plans for 2015-2019. The results of this exercise provided Toronto Hydro valuable insight into its customers' perceptions of the utility's priorities. Among other things, Toronto Hydro learned that customers' preferences align with the central pillars of the utility's capital plan.

a) Please explain what the "central pillars of the utility's capital plan" are.

CCC.8

(Ex.1A/T2/ S1/pg18)

"Toronto Hydro's proposed Capital Expenditures over the 2015 to 2019 period include the following costs associated with renewable energy generation ("REG") connections:" "Table 3: Renewable Enabling Improvements (REI) from 2015 to 2019 ($ Millions)"

a) What is the difference between REG and REI?

CCC.9

(Ex.1A/T2 S1/pg15)

"The majority of the capital programs are continuations of the work programs the OEB approved in the ICM application."

(Ex.1A/T2/ S1/pg24)

"For the 2015 test year, Toronto Hydro requests a base revenue requirement of $672.3 million, which represents an increase of $150.3 million, or 28.8%, from the base revenue requirement previously approved by the OEB in the utility's last rebasing application."

"The main drivers of the increase in base revenue requirement for the 2015 test year are the additions to rate base due to Toronto Hydro's significant capital program over the 2012-15 period, and an increase in OM&A expenses."

a) Are the 2012, 13 and 14 ICM programs not currently part of Toronto Hydro's significant capital program? How can the ICM be treated in separate proceeding under these circumstances?

CCC.10

(Ex1A/T2/S1/pg21)

"The change in rate base is driven by an increase of approximately $1,026.1 million in the average net book value ("NBV") of property, plant and equipment ("PP&E"), which is offset

by a decrease of approximately $60.0 million in the working capital allowance ("WCA") component of rate base due to an updated WCA rate, as per Toronto Hydro's updated Lead Lag study. The growth in PP&E includes investments Toronto Hydro has made under the ICM framework during the 2012-14 period, as well as the addition of street lighting assets into rate base.

a) Please explain how the Board can approve the above mentioned change in rate base if Toronto Hydro has not trued-up the ICM for 2012 – 14?

CCC.11

(Ex. 1A/T2/S1/p. 26)

Please provide the assumptions used with respect to consumption for each rate class on Table 8: Summary of Total Bill Impacts by Rate Class.

CCC.12

(Ex. 1A/T3/S1/p 6)

Toronto Hydro has provided a link to its Conditions of Service. Please indicate what changes have been made to the Conditions of Service since Toronto Hydro's last cost of service proceeding.

CCC.13

Toronto Hydro is currently engaged in the Central Toronto Regional Planning Process and other Regional Plans involving Toronto Hydro will be initiated over the next several years. Please explain what is involved in the current Central Toronto Regional Planning process. To what extent does Toronto Hydro have costs included in its forecasts related to this process? Please explain how that process, or other Regional Planning initiatives may impact the plans and priorities which are the basis for this application.

CCC.14

PARTIAL Decision and Order – EB-2012-0064 April 2, 2013

Pg.75 "With respect to the "true-up" of ICM capital spending and rate riders, the Board notes that the policy does not specifically speak of a true-up. Rather the policy requires reporting of the actual spend on the approved ICM projects versus what was approved by the Board. The Board, at the time of rebasing, whether this is through a cost of service review as part of 4th Generation IR, or through a Custom IR application, will determine whether any overspending should be allowed in rate base, or whether any underspending should be returned to ratepayers.

The Board does share the concerns of certain Intervenors that the monies allocated for ICM projects must be tracked separately and reported separately. Unlike the "envelope" approach often adopted in cost-of-service proceedings, the monies must be reported per project segment as outlined above."

a) Please provide the separate tracking and reporting for each element of the ICM that was part of the decision.

EXHIBIT 1B – REQUESTS AND RATIONALE

CCC.15

(Ex1B/T1/S3/Pg16)

"the custom PCI proposed by Toronto Hydro embeds the expectation that the components of rates attributable to OM&A and Revenue Offsets will continue to increase by only "I – X". If actual OM&A was to increase at a rate greater than this, or if Revenue Offsets were to stagnate, Toronto Hydro is at risk for under-recovery through the 2015 to 2019 period. Toronto Hydro is aware of this risk and, in response to the incentives created by its proposed custom PCI, expects to continue to seek efficiency and productivity improvements throughout the rate term."

a) Efficiency and productivity improvements throughout the rate term are to be an integral part of your day to day business. What incremental efficiency and productivity improvements would assist with any under-recovery?
b) If there is over-recovery for the opposite reasons as mentioned above, what mechanism will be used to ensure the customer is kept whole?

CCC.16

(Ex1B/T1/S3/Pg17-18)

- One-time events that Toronto Hydro anticipates may give rise to a Z-factor application include: Extreme weather events such as storms;
- One-time investments made at the behest of government direction and outside of management's control, such as:

    o Smart Meter implementation;

    o Conservation and Demand Management;

    o Regional Planning; and any other one-time events that meet the Z-factor criteria.

a) What is Toronto Hydro's detailed definition of "Extreme weather events"?
b) How many dollars has Toronto Hydro allocated for storm restoration in its business plan budget for 2015 – 2019.
c) Please provide details regarding what Smart Meter implementation activities would be considered beyond the utility's regular work program in this area.

d) Please provide details regarding what Conservation and Demand Management activities would be considered beyond the utility's regular work program in this area particularly considering these activities are funded by the OPA.
e) Does Toronto Hydro not have any dollars allocated to Regional Planning activities for 2015 – 2019?

CCC.17

(Ex. 1B/T2/S3)

The evidence sets out Toronto Hydro's proposed Price Cap Index. Does Toronto Hydro have examples of this specific formula being used on other jurisdictions? If so, please provide examples. Did Toronto Hydro develop this proposal in conjunction with external consultants? If so, please provide all relevant reports and work products provided by the consultants.

CCC.18

(Ex1B/T2/S4/pg3)

"The DSP programs listed in Table 1 are direct continuations of the activities featured in the ICM segments listed in the left column. The forecasted expenditures for the programs listed in Table 1 are comparable to those in the ICM period, with some programs tapering off or coming to an end within the 2015-2019 period, and other programs increasing marginally to address greater investment needs in the 2015-2019 period."

a) Please explain how the Board can approve any further expenditures on these capital programs if Toronto Hydro has not trued-up the ICM for 2012 – 14?

CCC.19

(Ex1B/T2/sch4/pg6)

"Figure 1 shows (i) the historical level of capital spending from 2006 to 2011, (ii) the average of actual and forecasted spending over the three-year ICM period (2012-2014), and (iii) the proposed level of capital spending for each of the five years in the planning horizon…. As shown above, the average annual level of investment for the proposed capital program is comparable to the level of spending during the utility's 2012-2014 IRM/ICM period."

a) Please provide the actual capital expenditures and in-service additions for 2012 and 13 and year end spend for 2014.

CCC.20

(Ex.1B/T2/S5/pg7)

"Based on its econometric benchmarking analysis, the PSE Report concludes that Toronto Hydro's past costs, as well as its 2015-2019 cost levels proposed in this application are lower than the reasonable levels of spending predicted by the econometric efficiency model. Toronto Hydro submits that these findings support the sufficiency of Toronto Hydro's past cost performance and confirm the efficiency and reasonableness of the forecasted costs underlying this application. The utility attributes the results of this assessment at least in part to the benefits of productivity initiatives described in the Past Productivity Review (Appendix A to this schedule) and those detailed elsewhere in this application."

a) Please detail the correlation between the lower costs explained in the econometric benchmarking and Efficiency and Productivity?
b) Wouldn't volume of work completed influence those benchmarking results? Particularly since it is stated the Frequency of Interruptions (SAIFI) is below-average?
c) What other items influence those benchmarking results?

CCC.21

(Ex. 1B/T2/S7/p. 9)

Was the work undertaken by Innovative Research Group Inc. subject to an RFP? If not, why not. If so, please provide the RFP and the subsequent terms of engagement. What was the cost of the work provided by Innovative Research? Please describe Toronto Hydro's role in developing the online workbook and its participation regarding focus groups.

CCC.22

(Ex.1B/T2/S7/pg10)

"The Innovative Report provides Toronto Hydro with valuable insight into its customers' perception of both the utility's priorities and those of the province's broader electricity sector. While the results of the consultation and the lessons drawn from it are addressed in more detail in the DSP, certain central themes can be briefly mentioned here:

• Customers' preferences align with central pillars of the utility's DSP. Toronto Hydro learned that, while its customers expect the utility to make prudent investment decisions, the majority accept the need for timely renewal of the Toronto Hydro-Electric System Limited distribution system, while acknowledging that this will mean an increase in their monthly bills.

a) Please explain how a residential customer has enough knowledge of the components of Toronto Hydro's distribution system, to comment on its renewal? Aren't customers actually commenting on the system's reliability, which can be addressed in other ways than renewing the system? Please explain.

EXHIBIT 2A – RATEBASE

CCC.23

(Ex2A/T9/ S1/pg2)

"Toronto Hydro does not expect to be able to determine the required 2014 actual expenditures or ISAs in concordance with the likely timeframe of this proceeding. Toronto Hydro therefore submits that the true-up of the 2012-2014 ICM activities is most appropriately undertaken in a separate proceeding from this application, following the determination of actual expenditures and ISAs for the full 2012-2014 ICM period."

a) The OEB decisions for the 2012 – 2014 IRM rate case EB – 2012 -0064 were provided in 2 phases. The first being the Partial Decision of April 12, 2013 dealing only with 2012 and 2013 as well as the Settlement Agreement of December 18, 2013. Please provide a rationale for why the ICM cannot be trued up on actuals for 2012 – 13 and on the best available actuals for 2014 (to be updated when the 2014 audit is complete in the second quarter of 2015) in this proceeding.

EXHIBIT 2B - DISTRIBUTION SYSTEM PLAN

CCC.24

"Despite its best efforts to anticipate and plan around these challenges, Toronto Hydro must be prepared to respond to circumstances "on the ground" in order to make the most efficient use of resources and ultimately deliver the best value for its customers. From a planning perspective, this means that the utility must be able to substitute, defer and add projects in the annual work program in any given year, to accommodate the operational realities that it encounters in the course of executing its work program."

a) Please explain how Toronto Hydro will kept accountable for the approved rate increase in any given year if approval is granted to move capital projects from one year to another? What type of detailed reporting does Toronto Hydro plan to provide regarding its capital program?

CCC.25

(Ex2B/SectE5.1-E5.-E5.3)

In each of these project's Tables of Historical and Projected Spending – 2014 dollars are listed as Historical. Since dollars spent in 2014 are known – please provide in-service dollars for each project in Sections E5.1to E8.8 that are part of the ICM.

EXHIBIT 3 - OPERATING REVENUE

CCC.26

(Ex. 3/T2/S1)

With respect to revenue offsets please explain how these will be dealt in the context of Toronto Hydro's plan. If revenue offsets significantly exceed the forecast amounts in 2015, how will these revenues be treated? If new categories of revenue offsets are established during the IR term, how will these revenues be treated?

CCC.27

(Ex. 3/T2/S1)

Please provide the following information regarding revenue offsets:

a) For each year 2011 to 2015 please provide actual and projected revenue related to both wireline pole attachments and wireless pole attachments;
b) For each year 2016-2019 please provide a forecast of the projected revenue from both wireline and wireless attachments.
c) Please explain, why pole rental revenue has increased from $10.7 million in 2014 to $19.5 million in 2015.

CCC.28

(Ex. 3/T2/S1/p. 4)

Table 2 sets out the Revenue Offsets related to "Merchandise and Jobbing". For each of the categories listed please provide a detailed explanation as to how the expenses and revenues were calculated. Please include all assumptions. With respect to Pole and Duct Rental please provide a separate explanation for each item.

EXHIBIT 4A - OPERATING COSTS: OM&A

CCC.29

(Ex. 4A/T1/S1)

Please provide all correspondence provided to internal staff regarding the development of the 2015 OM&A budget and budgeting beyond 2015. Toronto Hydro has presented the OM&A evidence by Program. Are certain Directors/Managers responsible for each program or does the Company operate in according to another structure? If it does please provide that structure and indicate how the "programs" are managed within that structure. If possible please provide an organizational chart that describes who is responsible for each "program".

CCC.30

(Ex. 4A/T1/S1)

With respect to OM&A please explain how Toronto Hydro defines; "Program" and "Segment".

CCC.31

(Ex. 4A/T1/S1/ Table 4)

Under Toronto Hydro's proposed plan please explain how Toronto Hydro will allocate budgets to individual departments and managers in the years 2016-2019.

CCC.32

(Ex. 4A/T1/S1/p. 4, Table 1)

This Table sets out OM&A Expenditures by Program. For each year 2011- 2014 please provide Board approved amounts where applicable. Has Toronto Hydro prepared operating budgets for each of these areas for the period 2016-2019 as part of its internal business planning process? If not, why not? If so, please provide those budgeted amounts.

CCC.33

(Ex. 4A/T1/S5)

Please explain why Toronto Hydro's OM&A cost per customer and OM&A cost per FTE have increased significantly since 2011.

CCC.34

(Ex. 4A/T2/S13/p. 3)

Has Toronto Hydro done a business case analysis regarding monthly billing? If so, please provide that business case analysis. If the Board mandates monthly billing by January 1,

2016, what will be the costs and benefits for Toronto Hydro? How would Toronto Hydro propose that mandated monthly billing be implemented in the context of its five-year plan?

CCC.35

(Ex. 4A/T2/S13/p. 2)

Please provide detailed budgets for each of the Customer Care "segments" for each year 2011-2015. Please provide the Board approved amounts for 2011.

CCC.36

(Ex. 4A/T2/S15/p. 3)

The Controllership budget is increasing significantly from 2011 to 2015. Please provide a detailed explanation for this increase.

CCC.37

(Ex. 4A/T2/S16/p. 11)

With respect to the IT Operations Segment please provide a detailed budget for Software and Service Management for the years 2011 – 2015.

CCC.38

(Ex. 4A/T2/S17/Appendix 2-M)

Appendix 2-M sets out Regulatory Costs for both the Custom IR Application and the Wireless Proceeding (EB-2013-0234). Please provide the following for the Historical years, 2014 Bridge Year and 2015:

a) A detailed breakdown of the legal costs and consulting costs, including hours and hourly rates for the Wireless Proceeding;
b) A detailed breakdown of the legal costs and consulting costs, including hours and hourly rates for the CIR proceeding.

CCC.39

(Ex. 4A/T2/S17/p. 9)

Toronto Hydro is seeking recovery in this Application for the costs related to the Wireless Proceeding (EB-2013-0234). Does Toronto Hydro have a deferral account in place where which it has been recording these costs? If not, on what basis can it include these historical costs in 2015 rates?

CCC.40

(Ex4A/T4/S3/Pg10)

"Toronto Hydro was able to safely execute the ICM plan using the funding available to it in that period. The utility accomplished this through various means, including the efficient planning and hiring decisions, as well as the prudent use of external resources."

a) Please detail the number of external resources that were hired annually and the number of Toronto Hydro regular staff that worked on capital projects during the ICM period of 2012 – 2014.

CCC.41

(Ex4A/T4/S3/Pg11)

"To limit the rate increases for the upcoming rate period, Toronto Hydro proposes to continue to replace employees as they retire on a "just in time" basis. This is not the optimal approach to workforce renewal, given the time that is required to safely and effectively train new workforce entrants to work on Toronto Hydro's distribution system. It was adopted, however, to constrain costs over the 2015 to 2019 period. As a long-term strategy, this approach is not preferred because it may compromise Toronto Hydro's ability to satisfy its commitments."

a) If Toronto Hydro limits hiring regular staff now, explain why this approach will not affect rate increases in the future?

CCC.42

(Ex4A/T4/S3/Pg21)

"Outsourcing Toronto Hydro's workforce requirements to third-party service providers is another option employed by the utility. In many cases, third-party service-providers enable the utility to cost-effectively resource peak demands, maintain flexibility in operations, and gain access to specialized expertise."

a) The evidence continually emphasizes the need to have qualified, trained staff to undertake the capital work projects. How will Toronto Hydro ensure the safe and effective completion of the ongoing work program with this approach?

CCC.43

(Ex.4A/T4/s4/1-30)

What specific new information has this Conference Board of Canada report provided in regard to Toronto Hydro's rate filing?

CCC.44

(Ex4A/T4/s6/Pg1-21)

In most instances, and against all comparator groups, Toronto Hydro pay sits within what we would consider a market competitive range of +/-15% of the relevant mid-market data.

a) Please provide other research where this band is considered "market competitive".

EXHIBIT 5 – COST OF CAPITAL

CCC.45

(Ex. 5/T1/S1)

Please provide the Board approved and actual ROE for the years 2005-2014(forecast). For the years in which Toronto Hydro did not have rates approved through a cost of service proceeding, please include the ROE embedded in rates.

EXHIBIT 8 – RATE DESIGN

CCC.46

(Ex. 8/T1/S1/p. 6)

Please explain, in detail, the process Toronto Hydro undertakes in establishing the revenue to costs ratios and fixed and variable split for each rate class.

CCC .47

(Ex. 8/T2/S1/p. 4)

With respect to all of Toronto Hydro's Specific Service Charges please explain how each of these items have been calculated. For those charges currently included in the OEB's Distribution Rate Handbook, has Toronto Hydro done analyses that assessed whether these charges are reflective of the cost to provide the service? If, so, please provide that analysis. If not, why not?

EXHIBIT 9 – DEFERRAL AND VARIANCE ACCOUNTS

CCC.48

(Ex. 9/T1/S1/p. 14)

Toronto Hydro is seeking to recover from customers a balance of $16.9 million which represents the net book value of the stranded conventional meters resulting from the smart program. Please provide a complete schedule setting out the following:

a) All smart meter expenditures, capital and OM&A, since the inception of the smart meter program;
b) The average cost of Toronto Hydro's installed meters;
c) Recoveries to date from customers regarding smart meter costs.
d) A detailed calculation as the how the $16.9 million was derived?

CCC.49

(Ex. 9/T1/S1)

In the EB-2013-0234 proceeding, in the Settlement Proposal, the agreement was for Toronto Hydro to establish a deferral account to record net revenues associated with wireless attachments on poles. Has Toronto Hydro established that account? If so, what are the amounts for disposition?

CCC.50

As explained in Exhibit 9, Tab 1, Toronto Hydro is requesting a minimal, below forecast baseline amount of rates funding for externally initiated plant relocations work as part of the DSP, representing less than the utility's forecast annual spending on externally initiated projects. This below-forecast amount is accompanied by a variance account to capture annual differences from this base amount. The utility's expectation is that this approach will allow it to fund necessary, non-discretionary work while, at the same time, holding ratepayers harmless from the potential that a material amount of the forecast third party work does not materialize, due to the unpredictable nature, costs, and timing of such projects.

a) Please provide the details regarding how Toronto Hydro determined the minimal, below forecast baseline amount of rates funding for externally initiated plant relocations work.