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*By Email and RESS*

October 15, 2014

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27th Floor  
Toronto, ON M4P 1E4

**Re: Toronto Hydro-Electric System Limited Distribution Rates 2015-2019  
(EB-2014-0116) - SIA Interrogatories**

Dear Ms. Walli,

Please find attached the interrogatories of the Sustainable Infrastructure Alliance of Ontario (the "SIA") in the above noted proceeding.

Sincerely,

*[original signed by]*

Dionisio Rivera

## **EB-2014-0116**

**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, 2015 and for each following year effective  
January 1 through to December 31, 2019.

### **Interrogatories on behalf of the Sustainable Infrastructure Alliance of Ontario**

#### *Exhibit 1B – Requests and Rationale*

##### **1B-SIA-1**

[Ref: Exhibit 1B, Tab 2, Schedule 7, Appendix B and Exhibit 2B]

Please identify the differences, if any, between the capital spending plan presented in the customer engagement workbook and the capital plan ultimately filed as part of this application. Please show these differences by listing all projects, the forecast budget presented in the engagement workbook, the budget value presented in this application, and the variance.

##### **1B-SIA-2**

[Ref: Exhibit 1B, Tab 2, Schedule 5, Page 24]

THESL states that it “maintains a comprehensive framework of Key Performance Indicators (“KPIs”) that is integrated with the utility’s performance pay program and is a part of a Balanced Corporate Scorecard.” Please provide THESL’s scorecards with targets and results for 2011, 2012, 2013, and 2014YTD.

##### **1B-SIA-3**

[Ref: Exhibit 1B, Tab 2, Schedule 3]

In THESL’s PCI formula, do the 2016-2019 years assume a stable customer/load forecast based on the rebasing projections for 2015? If so, has THESL considered incorporating a variable to account for the growth/decline of customers/load into its PCI formula over 2016-2019? If not, why not?

#### **1B-SIA-4**

[Ref: Exhibit 1B, Tab 2, Schedule 5, Appendix B, Page 5]

The PSE Benchmarking report states that “Both samples show Toronto Hydro has been below its total cost benchmark values, and this persists through the projected years, albeit with a convergence towards benchmark costs.”

a) What are the reasons for this convergence?

b) Does THESL view this convergence as a negative (i.e undesirable) trend (in terms of reflecting a declining level of relative productivity)?

#### **Exhibit 2A – Ratebase**

#### **2A-SIA-5**

[Ref: Exhibit 2A, Tab 4, Schedule 1]

In THESL’s Smart Meter Clearance Application (EB-2013-0287), in response to Board Staff Interrogatory 12, THESL estimated the value of its stranded meters as \$13.04 million. In this application, the value is presented as \$15.2 million. Please explain the variance between these two forecasts.

#### **2A-SIA-6**

[Ref: Exhibit 2A, Tab 5, Schedule 1, page 4]

With regard to the transfer price of the Streetlighting Assets, THESL states that “At that time an Agreement of Purchase and Sale (the “Sale Agreement”) was executed between the parties which initially provided for a transfer price of \$28.5 million, subject to a detailed analysis of the NBV of the transferred assets, which analysis would then underpin an adjustment to the transfer price, if necessary.” Does THESL believe that the OEB decision allows for an “adjustment to the transfer price”?

#### **2A-SIA-7**

[Ref: Exhibit 2A, Tab 5, Schedule 1, page 17 ]

With regard to the value of the Streetlighting Assets, THESL states "However, it is still the case that the proxy value of \$28.9 million provided at the time was the result of two simplifying assumptions that had to be made due to the lack of more precise information."

Did THESL at any time prior to this application indicate to the OEB that the \$28.9 was intended only as a "proxy value" that would require subsequent adjustment? If not, why not?

#### **2A-SIA-8**

[Ref: Exhibit 2A, Tab 5, page 4]

As part of the Aug 3, 2011 Decision (EB-2009-0180) the OEB accepted a transfer value of \$28.9

million, stating “THESL proposed to pay \$29.418 million in return for the transfer of the SEL System Assets classified as distribution assets” and concluding that “the Board finds the proposed transfer price of \$28.938 to be reasonable”. In its EB-2011-0144 rate application (which was ultimately dismissed), THESL relied on the original OEB decision and “proposed a slightly lower transfer price for the assets of \$28.46 million, reflecting the forecast evolution of the assets (principally additions and depreciation) over 2011” (Exhibit 2A, Tab 5, Page 4)

a) Please explain why THESL accepted the OEB’s Decision on the valuation of the streetlighting assets as part of its EB-2011-0144 filing, but finds it necessary to present an alternative valuation as part of this proceeding.

b) Please explain why THESL did not complete “the detailed analysis of the NBV of the transferred assets” (Exhibit 2A, Tab 5, Page 5) prior to the original OEB valuation decision.

### Exhibit 2B – Distribution System Plan

#### **2B-SIA-9**

[Ref: Exhibit 2B]

For all the capital programs being proposed for completion in 2015-2019 (Sections E5-E8), on a best efforts basis, please provide a table showing the amount that was spent on similar work that was undertaken in each year from 2011 through 2014 (forecast to year end). Please also show the corresponding 2015 through 2019 amounts in the same table.

#### **2B-SIA-10**

[Ref: Exhibit 2B]

With the assumption that most, if not all, capital investments will improve reliability to some extent, please identify which specific projects directly contribute to reduce restoration times following outages. Would the answer generally be the same for restoration times following major outages caused by storms?

#### **2B-SIA-11**

[Ref: Exhibit 2B]

Summer switching restrictions/operational constraints appear to be a program execution risk for a large number of programs (see for example Network Unit Renewal, Section E6.10.5.1, Legacy Network Equipment Renewal, Section E6.11.5.2, Network Circuit Reconfiguration, Section E6.12.5.2, etc).

a) Please list all programs for which summer switching restrictions apply.

b) Has THESL performed an analysis to ensure that even under normal expected operating conditions it can complete the planned programs slated for completion in 2015 and beyond without the programs competing with one another for offloading capacity (i.e. in developing the

forecasts for the capital plan, have summer switching restrictions been considered to the entirety of the proposed capital plan as a whole?)

## **2B-SIA-12**

[Ref: Exhibit 2B, Section E6-6]

a) Please explain the notable decrease in proposed spending on the Rear Lot program from ~\$17-24 million in 2012 through 2015 to only ~\$8-\$13 million between 2016 through 2019. Given the many problems presented by THESL with regard to rear lot lines, and the justification and urgency for the program presented by THESL in its ICM evidence, why is THESL not proposing a more accelerated conversion (to match the 2012-2015 pace), to potentially eliminate all rear lot lines over a shorter timeframe?

b) What would be the total investment required to eliminate all rear lot lines over the 2015-2019 period?

## **2B-SIA-13**

[Ref: Exhibit 2B, Section E5-4, Table 1, page 7]

Why is bus A1-2 at Charles TS considered for load transfer if the loading is currently only at 86%?

## **2B-SIA-14**

[Ref: Exhibit 2B, Section E6-9, page 26-27]

Please explain why 2014 and 2015 spending on vault repairs is relatively low (\$0.93M and \$3.95M) compared to the 2013 and 2016-2019 spending (~\$10M per year)? Please identify the details behind the “resource constraints” cited.

## **2B-SIA-15**

[Ref: Exhibit 2B]

a) What percentage of the capital spending proposed as part of this application is similar in nature to the projects proposed and/or approved in THESL’s 2012-2014 ICM rate application?

b) Please subdivide all capital projects in this application into those that are directly similar to 2012-2014 ICM projects (including within materiality threshold projects), and those that are materially different from the work proposed in the ICM application. Please provide a table showing the project name, a brief description of the project, and the budget for 2015 through 2019.

c) For the work that is different from the ICM work, does THESL believe this work is important enough to displace ICM-like work, or is THESL simply unable to complete more non-discretionary ICM-type work due to resource/system constraints?

## **2B-SIA-16**

[Ref: Exhibit 2B, Section E6-4]

a) Please discuss the relative merits of using concrete vs. wooden poles, specifically discussing differences in:

- i) the cost of the pole ii) the costs of installation of the pole iii) strength (in terms of resistance to failure during storms, resistance to impact from traffic accidents, etc) iv) rates of deterioration v) expected lifespan vi) historic actual lifespan (based on THESL's records/observations)
- b) Does THESL have a preference (or how does THESL determine) as to which type is used during its replacement programs?
- c) Has THESL conducted any studies or analysis as to which pole type is a more efficient or effective investment?
- d) Does THESL to any extent consider the aesthetic value of each pole type when planning replacement?

#### **2B-SIA-17**

[Ref: Exhibit 2B, Section E6.6, Table 5, Page 19]

Please confirm whether the values for outages for "All feeders" in Table 5 is inclusive of Rear Lot, or is meant to show outages on all "other" feeders, specifically excluding "Rear Lot".

#### **2B-SIA-18**

[Ref: Exhibit 2B, E6.1 page 6 and Exhibit 2B, E6.20 page 12]

Please reconcile the definition of "catastrophic failure" on page 12 of Section E6.20 and that provided in the footnote on page 6 of Section E6.1. Specifically, does the failure have to be "large scale, affecting a greater number of customers" (as in E6.20) for it to be considered catastrophic, or does it simply need to be a failure other than failure-by-design in which "damage to other equipment and/or injury to a person occurs or could occur" (E6.1) regardless of the scale and number of affected customers.

#### **2B-SIA-19**

[Ref: Exhibit 2B]

Do any of the proposed capital programs include any CDM initiatives (or close variations of the CDM initiatives) that were previously included in THESL's CDM Application in EB-2011-0011?

#### **2B-SIA-20**

[Ref: Exhibit 2B, Section E7.11, Page 4]

With regard to the Energy Storage program, THESL states that "The objective of the program is to enable Toronto Hydro to address specific issues and limitations within the distribution system with a prudent alternative to existing solutions and methods." Please list examples of the "existing solutions and methods" being referenced, and further explain by way of examples why an alternative to these methods needs to be employed.

#### **2B-SIA-21**

[Ref: Exhibit 2B, Section E7.10, Pages 1-2]

With regard to the Local Demand Response program, THESL states that "Using strategic load balancing, the capital investment required to address bus relief that would have otherwise been

required in 2020 can be delayed to approximately 2025-2026. Total costs for the Local Demand Response program are estimated to be \$4.1 million over the period of 2015 to 2019.”

- a) In the absence of this project, what is the estimated cost of the bus relief investment required in 2020?
- b) With the benefit of this project, what is the cost of the delayed investment in 2025-2026?
- c) Please explain whether and/or how THESL believes that the cost of this project is justified by a 5-6 year delay to an investment that will nonetheless continue to be required.

## **2B-SIA-22**

[Ref: Exhibit 2B Section E5.3, Page 3; Exhibit 9, Tab 1, Schedule 1]

Concerning the Externally Initiated Plant project in Section E5.3, THESL states that:

“Although the utility forecasts that this program will cost approximately \$119 million between 2015 and 2019, it has included only one-sixth of this amount (approximately \$20 million) in its revenue requirement, or approximately \$4.0 million of net Toronto Hydro costs per year. This sub-forecast amount represents a base level of spending that will be required over this term. Toronto Hydro proposes to seek rates funding only for this sub-forecast base amount, with a variance account to record differences from this amount.”

In Exhibit 9, Tab 1, Schedule 1 THESL goes on to say that:

“To reconcile the variable, non-discretionary nature of the work with its resulting bill impact, Toronto Hydro has intentionally included a below-forecast level of Relocation Spending in the utility’s Distribution System Plan (“DSP”) for the 2015-2019 period”

- a) Given that the \$4.0 million annually is less than any annual actual amount of historic spending in this area since 2010, and given that THESL is actually forecasting a notable increase in spending in this area over 2015-2019, please explain why THESL nonetheless proposes including a “below forecast level” of spending in rates. Does THESL anticipate the possibility that its forecast variances could be overstated by as much as 5/6ths in each year?
- b) Is THESL concerned that the proposed approach could result in a likely material under-recovery, requiring an additional collection from customers in 2019 and beyond? Why should ratepayers in 2019 and onwards be responsible for costs deliberately under-recovered from 2015-2019 ratepayer groups?
- c) Would THESL consider including the full forecast amount (or some materially higher percentage of it – e.g. 90%) in its revenue requirement, subject to variance account treatment at the end of 2019? Why or why not?

## **2B-SIA-23**

[Ref: Exhibit 2B, Section C, Page 28]

Please explain why the number of outages caused by defective equipment, as opposed to the defective equipment sub cause code of SAIDI and SAIFI, is being proposed as a tracking measure. That is, why not track the SAIDI and SAIFI caused by defective equipment rather than the absolute number of outages?

**2B-SIA-24**

[Ref: Exhibit 2B, Section E5.2, Page 9]

THESL states that "...the Eglinton Light Rail Transit (ELRT) line requires several connection points to the Toronto Hydro system. Approximately 30 new LRT stations are proposed for this line, with a total demand of approximately 90 MVA. Connecting this many stations with such a large load will require significant expansion work over the 2015-2019 time frame and is the primary basis for the substantial net spend in 2017 and 2018."

Please identify the total expected costs of the ELRT expansion work.

**2B-SIA-25**

[Ref: Exhibit 2B, Section E5.2, Page 12, Table 4]

Please explain why THESL uses two different basic connection fees for each of the Unmetered and Streetlighting classes. Under what conditions or circumstances would THESL apply one rate rather than the other?

**2B-SIA-26**

[Ref: Exhibit 2B, Section E7.3, Page 1]

With regard to Feeder Automation THESL states that "This program focuses on the automation of select feeders in two areas of Toronto Hydro's system: the 27.6 kV open looped system in the 'Horseshoe' area and the 13.8 kV underground residential distribution systems in the Downtown area."

- a) What approximate percentage of THESL's distribution grid is comprised of these two systems?
- b) Are there any other notable areas within the distribution grid that THESL believes would benefit from this technology, whether now or in the future?

**2B-SIA-27**

[Ref: Exhibit 2B, Section E7.8, Page 6]

Concerning customer owned substations, THESL states that "There are several instances in which the current configuration is non-compliant with Toronto Hydro standards, either because: (1) Toronto Hydro-owned protection devices are absent altogether or need to be replaced; or (2) customer-owned protection devices do not meet required standards."

- a) To what extent would enforcement of compliance with standards under point (2) mitigate the concern or need for the installation of protection devices?
- b) Please explain whether it is THESL's intention to enforce compliance from customers with its customer-owned protection device standards, either as part of this project or through a separate initiative. If so, please explain the steps it will take to enforce compliance.



## **2B-SIA-28**

[Ref: Exhibit 2B, Section E6.3, Page 4, Table C]

Concerning Underground Legacy Infrastructure, please provide an approximate breakdown of the proposed spending for this program by each of the six asset types described for replacement on pages 1-2.

## **2B-SIA-29**

[Ref: Exhibit 2B, Section E6.3, Page 16]

Regarding Cable Chamber lids, THESL states that it “plans to replace a limited number in the first year because the new cable chamber lid must be tested for proper functionality in both the winter and summer months to ensure they operate in the multitude of conditions that they will be exposed to. If the new lid design passes the necessary testing, Toronto Hydro plans to replace a total of 1,475 cable chambers in the remaining four years of the program.”

- a) Please confirm that the cost of replacement of the 1475 cable chambers is included in the proposed budgets for this program.
- b) In the event that the necessary testing is not positive and THESL will not proceed with the 1475 cable chamber replacements, how will THESL spend the allocated funding? Are there alternative approaches that would be considered to address the concerns with the existing cable chambers?

## **Exhibit 3 – Operating Revenue**

## **3-SIA-30**

[Ref: Exhibit 3, Tab 2, Schedule 2]

Regarding Specific Service Charge Revenue:

- a) Please explain why the revenue forecast for the “Connection-Reconnection Charge” remains unchanged at \$440K for 2015 over 2014, despite the specific service charge for disconnections/reconnections increasing from \$65 to \$120 as noted in Exhibit 8, Tab 2.
- b) Please explain why \$0 revenue has been recorded for Duplicate Invoices, Income Tax Letters, and Special Meter Reads. Is this a materiality/rounding issue?
- c) Please explain why \$0 revenue is expected from Temporary Service Construction and Easement Letters in 2014 and 2015.
- d) For additional clarity, please prepare a table showing all revenue received and forecast from the charges listed in Exhibit 8, Tab 2, Schedule 1, Table 1. Please show 2012-2014 actuals, and 2015 forecast revenue based on the new proposed service charges.

#### Exhibit 4A – Operating Costs: OM&A

##### **4A-SIA-31**

[Ref: Exhibit 4A, Tab 1, Schedule 1]

THESL notes that it “presents its Historical, Bridge and Test Year OM&A expenditures as a sum of 19 discrete programs”, but goes on to say that “OM&A plans are generally presented on a operating department or ‘Responsibility Centre’ (RC) basis”.

a) Please clarify whether THESL tracks and operates its OM&A on a program or department level? For example, does THESL have an actual “Finance Program” or a “Legal Services Program”, or is this presentation a reflection of THESL’s interpretation of the Filing Requirements?

b) Please explain the differences, if any, between THESL “programs” as presented in this application and the corresponding departments. For example, are there any identifiable differences between the functions and costs of the “Finance Program” and the functions and costs of the “Finance Department” presented in prior rate applications?

c) For all OM&A “programs” identified in Table 1, please identify the relevant department that undertakes each program.

d) Please provide the OM&A budgets mapped by operating department (Responsibility Centre), as referenced above.

##### **4A-SIA-32**

[Ref: Exhibit 4A, Tab 4, Schedule 2]

Please reproduce Appendix 2K by breaking out the “Non-management” category into “Union” and “Non-Union” sub-categories separately. In addition, please provide average per-employee values for all compensation categories (e.g. “Average Total Salary and Wages” per Management/Union/Non-Union, etc).

##### **4A-SIA-33**

[Ref: Exhibit 4A, Tab 4, Schedule 6, Page 1]

The THESL Compensation and Benefit Review states that “Following Towers Watson’s advice, benchmark roles – selected to reflect the wide range of positions at Toronto Hydro – were identified to support the compensation analysis. Balanced selection criteria were applied to ensure functional or level based bias did not disproportionately skew the analyses. Benchmark roles covered 66% of Toronto Hydro’s employee population (well within the range (50% - 75%) typically suggested for this type of analysis).”

Please explain why all job positions were not included in this benchmarking effort? Does the exclusion of 1/3 of positions result in material efficiency gains in the production cost/time of the Benefit Review?

**4A-SIA-34**

[Ref: Exhibit 4A, Tab 2, Schedule 4, Appendix A]

Please provide a breakout of the length of time customers were without power during the ice storm in 12 hour intervals. (i.e. # of customers without power 0-12 hours, 12-24 hours, etc)

**4A-SIA-35**

[Ref: Exhibit 4A, Tab 2, Schedule 4, Appendix A]

Did the experiences of the ice storm lead THESL to identify the need for any changes in maintenance policies and/or capital standards? If not, why not?

**4A-SIA-36**

[Exhibit 4A, Tab 2, Schedule 4, Appendix A, Page 8]

The Report on the December 2013 Ice Storm states that “The IRP identified 25 recommendations for consideration by Toronto Hydro management”

Please list the 25 recommendations and describe THESL's status as to implementing any of them. Additionally, if THESL is not planning to implement any of the 25 recommendations, please explain the rationale and reasoning.

**4A-SIA-37**

[Ref: Exhibit 4A, Tab 2, Schedule 1, Page 48]

THESL states that its “inspection cycle is moving from a ten-year cycle to an eight-year cycle, resulting in the need to execute 1,350 cable chamber inspections in 2015 as opposed to 1,100 in 2014. “ Please explain the basis for the decision to increase the frequency of inspections.

**4A-SIA-38**

[Ref: Exhibit 4A, Tab 2, Schedule 1, Page 61]

THESL states that it “maintains 850 Customer Substations”.

Do customers or THESL pay for the maintenance costs of these customer owned substations?

**4A-SIA-39**

[Ref: Exhibit 4A, Tab 2, Schedule 6, Page 17)

THESL states that it “manages vault access and customer isolation activities by assigning them, to the degree possible, to field workers affected by injuries.” Please explain why? Do customer isolation activities involve a less strenuous level of work that can be performed by “field workers affected by injuries”?

**4A-SIA-40**

[Ref: Exhibit 4A, Tab 2, Schedule 17]

Please prepare a table showing the total costs of this CIR application, broken out into its major subcategories (e.g. Legal, Consultants, Reports, etc) that THESL is proposing to amortize over

the 2015-2019 period. Please present these amounts broken out by the year in which they were incurred.

#### **4A-SIA-41**

[Ref: Exhibit 4A, Tab 2, Schedule 17, Page 9 of 9]

THESL states “For the purposes of determining the Rates and Regulatory Affairs operating budget to be included in 2015 Revenue Requirement, Toronto Hydro proposes to amortize the costs incurred over the 2013-2015 period associated with the CIR application costs over the 2015-2019 rate period, as well as the costs associated with the Wireless Forbearance (Wireless) application.”

- a) How are the costs of this current application and the wireless forbearance application different than any other application that THESL filed during 2011-2014 and for which it is not seeking cost recovery (e.g. 2012 COS, 2012-2014 ICM, Smart Meter Clearance, etc). That is, why is historical cost recovery requested only for these two particular applications?
- b) In the absence of a deferral account, did THESL at any time in any past application apply for and/or recover any application costs incurred in historic years over the applied for test year.
- c) Please explain under what authority THESL believes it to be appropriate to recover out-of-period costs (i.e. the 2013 and 2014 portion of the application costs) in an application for 2015 rates (particularly in the absence of an approved deferral or variance account).

#### **4A-SIA-42**

[Ref: Exhibit 4A, Tab 2, Schedule 17, Page 9 of 9]

In the current application, with regard to CIR and Wireless Forebearance application costs, THESL states that “None of these costs were included in setting rates in the last 2011 cost of service application, which formed the basis for distribution rates over the 2011-14 period.” However, in its 2011 rate application (EB-2010-0142, Exhibit F2, Tab 6, Schedule 1) THESL noted that “Regulatory Affairs develops THESL’s positions on defined issues, prepares regulatory filings and rate applications, and makes submissions in regulatory proceedings.”, suggesting that general application costs are included within the Regulatory Affairs budgets. In Exhibit R1, Tab 1, Schedule 30, Appendix A of the same proceeding THESL noted that “Operating costs associated with the preparation and defense of applications is comingled with the Business Unit operating budgets.”

- a) Please reconcile these statements.
- b) What level of costs for the filing and processing of applications was assumed/embedded in the Regulatory Affairs budget in THESL’s 2011 rate application?
- c) Please scale the amount in b) above by the total percentage OM&A reduction as a result of the 2011 Settlement Agreement.
- d) If approval for historic cost recovery is granted in this application, should the amortized amounts (i.e. the costs of the CIR and Forbearance applications) not be calculated as net of any amounts currently embedded in rates (as calculated in c) above)? If not, why not?

Exhibit 4B – Operating Costs: Depreciation and PILs

**4B-SIA-43**

[Ref: Exhibit 4B, Tab 2, Schedule 1, Page 1]

THESL claims that “Where it can, Toronto Hydro takes advantage of available tax deductions and tax credits, such as research and development tax credits, to minimize its tax burden.”

Please identify the amount of R&D credits claimed in each year from 2011-2014.

Exhibit 9 – Deferral and Variance Accounts

**9-SIA-44**

[Ref: Exhibit 9, Tab 1, Schedule 1, Page 13, Table 5]

Please explain the sizeable variance between the forecast gains for the sale of 175 Goddard (\$7.14 million) and the actual after tax gains (\$2.47 million).