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February 13, 2015

via RESS – signed original to follow by courier

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

Dear Ms. Walli:

**Re: Toronto Hydro-Electric System Limited (“Toronto Hydro”)
Custom Incentive Rate-setting Application for 2015-2019 Electricity Distribution Rates
and Charges – Update re Monthly Billing and Regulatory Costs
OEB File No. EB-2014-0116**

Toronto Hydro writes to the Ontario Energy Board (“OEB”) in respect of the above-noted matter.

Pursuant to Rule 11.03 of the OEB’s *Rules of Practice and Procedure*, Toronto Hydro is filing an evidentiary update to:

1. request a new deferral account for the costs and savings associated with the implementation of monthly billing, as outlined in the OEB’s proposed DSC amendments issued on February 5, 2015; and
2. inform the OEB that the utility proposes to record the amortized regulatory costs, as described in Exhibit 4A, Tab 2, Schedule 17, in Account 1525.

Enclosed are updates to the following Schedules, marked by /C and provided in blue paper:

- Exhibit 1B, Tab 1, Schedule 1, pages 4-5;
- Exhibit 4A, Tab 2, Schedule 17, page 9;
- Exhibit 9, Tab 1, Schedule 1, pages 30-31; and
- Exhibit 9, Tab 1, Schedule 1, Appendix B, pages 4-5.

Toronto Hydro will provide electronic copies of the updated consolidated Application and Evidence to parties upon request.

Please do not hesitate to contact me if you have any questions.

Yours truly,

[original signed by]

Daliana Coban

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Toronto Hydro-Electric System Limited

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cc: Charles Keizer, Torys LLP
Crawford Smith, Torys LLP
Amanda Klein, Toronto Hydro
Intervenors of Record for EB-2014-0116

- 1 b) approval of the continuation of existing deferral and variance accounts, as
2 set out in Exhibit 9, Tab 1, Schedule 1;
- 3 c) relief from having to record amounts to Retailer Cost Variance Accounts
4 as set out in Exhibit 9, Tab 1, Schedule 1; and
- 5 d) approval of four new deferral and variance accounts as proposed in /C
6 Exhibit 9, Tab 1, Schedule 1:
- 7 i) a variance account in respect of externally-initiated plant
8 relocations and expansions;
- 9 ii) a variance account in respect of derecognition losses;
- 10 iii) a variance account to record the difference between the actual
11 costs of approved eligible investments and the revenue received
12 from the IESO relating to Provincial Rate Protection amounts; and
- 13 iv) a deferral account in respect of costs and savings related to the /C
14 mandatory transitioning of certain customers to monthly billing. }
- 15
- 16 **4)** Approval of the rate-setting formula and related elements, as proposed in Exhibit
17 1B, Tab 2, Schedule 3.
- 18
- 19 **5)** Approval to implement rate year synchronization effective January 1, 2016, as
20 proposed in Exhibit 8, Tab 1, Schedule 1.
- 21
- 22 **6)** Approval of annual reporting as proposed in Exhibit 1B, Tab 2, Schedule 6;
- 23
- 24 **7)** Deferral of the Incremental Capital Module true-up from EB-2012-0064, and
25 approval to bring forward a separate application in 2015 as proposed in Exhibit
26 2A, Tab 9, Schedule 1.
- 27

1 approximately \$0.7 million in costs related to the wireless forbearance application. For
2 the purposes of setting rates for 2015-19, these incremental costs are proposed to be
3 amortized over the 2015-19 period.

4
5 **3.4. Test Year Program Costs**

6 The 2015 Test Year program costs are forecast to be \$10.1 million, reflecting continued
7 legal, consulting, and intervenor costs for the CIR filing of approximately \$3.2 million.

8
9 Toronto Hydro's current rate filing will set rates for the following five years. In addition
10 to the regular responsibilities of the group, this period will include implementation,
11 monitoring, and potential reporting on aspects of the current Custom Incentive Rate-
12 setting application, the preparation and filing of a clearance application relating to
13 Toronto Hydro's ICM Deferral Accounts, development of the utility's 2020 rebasing
14 application, as well as several expected major policy consultations. The program will
15 also continue to provide ongoing regulatory consulting and services to the rest of the
16 utility.

17
18 For the purposes of determining the Rates and Regulatory Affairs operating budget to be
19 included in 2015 Revenue Requirement, Toronto Hydro proposes to amortize the costs
20 incurred over the 2013-2015 period associated with the CIR application costs over the
21 2015-2019 rate period, as well as the costs associated with the Wireless Forbearance
22 (Wireless) application. None of these costs were included in setting rates in the last 2011
23 cost of service application, which formed the basis for distribution rates over the 2011-14
24 period. For regulatory accounting purposes, these costs will be recorded in Account 1525
25 Miscellaneous Deferred Debits, and drawn down over the 2015-19 period.

} /C

26
27 The legal, consulting and intervenor costs associated with the 2015 CIR application are
28 driven primarily due to the work involved in preparing a comprehensive five year

- 1 • Toronto Hydro will record as a credit to the variance account, the amounts
2 collected from the IESO as a result of any OEB order directing such payments
3 from the IESO to Toronto Hydro.
- 4 • The balance will not attract carrying charges.

6 **10.4. Deferral Account for the Mandatory Transition to Monthly Billing**

7 Subsequent to the OEB's recently proposed amendments to the Distribution System
8 Code¹ (DSC), Toronto Hydro requests a deferral account to track incremental costs and
9 savings that result from the mandatory transitioning of all non-seasonal residential
10 customers and all General Service less than 50 kW (GS < 50kW) customers to monthly
11 billing by December 31, 2016. Toronto Hydro provided detailed estimates of these costs
12 and savings in its submission on the Draft Report of the Board; this submission was filed
13 in this proceeding as part of the response to interrogatory 4A-CCC-34.²

14
15 The OEB's proposal on monthly billing as outlined in the notice of DSC amendments,
16 differs from the initial proposal in the Draft Report of the Board in two significant ways.
17 First, the OEB is proposing an implementation date of December 31, 2016, a year later
18 than the date in its Draft Report. Second, along with non-seasonal residential electricity
19 customers, GS < 50kW customers will now also be transitioned to monthly billing.
20 These changes are not reflected in Toronto Hydro's estimates of the associated costs and
21 savings, as detailed in its submission on the Draft Report of the Board (see 4A-CCC-34).
22 The actual amounts booked to this deferral account may differ in magnitude from the
23 estimates provided in the utility's submission.

24
25

¹ Ontario Energy Board, *Notice of Proposal: Proposed Amendments to the Distribution System Code*, 5
February 2015 (Board File No.: EB-2014-0198).

² Toronto Hydro's response to interrogatory 4A-CCC-34 includes a copy of the utility's submission on the
Draft Report of the Board that preceded the proposed DSC amendments regarding monthly billing. This
submission was filed October 9, 2014. The interrogatory response was filed on November 5, 2014.

/C

1 **10.5. Draft Accounting Orders**

2 Draft Accounting Orders for the requested Externally Driven Capital and Derecognition

3 Variance accounts and Monthly Billing deferral account are found in Appendix B.

} /C

1 **3. MONTHLY BILLING COSTS AND BENEFITS DEFERRAL ACCOUNT –**
2 **DRAFT ACCOUNTING ORDER**

3
4 On February 5, 2015, the Ontario Energy Board issued its Notice of Proposal: Proposed
5 Amendments to the Distribution System Code (Board File No.: EB-2014-0198). Under
6 this proposal Toronto Hydro will be required to implement monthly billing for non-
7 seasonal Residential and all GS<50 kW customers as of December 31, 2016.

8
9 As none of the costs and savings related to the implementation of this new billing
10 requirement form part of 2015-19 rates to be approved by the Board in the current
11 proceeding, Toronto Hydro will record in a number of Deferral Accounts the costs and
12 savings associated with this requirement. The accounts, which will attract monthly
13 carrying charges on the opening balances, will be submitted at a later date for clearance.

14
15 Toronto Hydro will establish the following Deferral Accounts to record the amounts
16 described above:

- 17 • Account 1508 Other Regulatory Assets – Subaccount Monthly Billing Operating
18 Expense Deferral Account
- 19 • Account 1508 Other Regulatory Assets – Subaccount Monthly Billing Capital
20 Costs Deferral Account

21
22 The sample accounting entries for the Deferral Account are provided below:

23 A. To reclass Operating expenses related to the Monthly Billing initiative to a
24 Deferral account as directed by the OEB.

- 25 • DR/CR 1508 Other Regulatory Assets, Subaccount Monthly Billing
26 Operating Expense Deferral Account
- 27 • CR/DR XXXX (Various Operating Expense Accounts)

/C

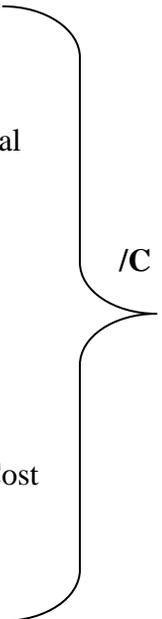
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B. To reclass capital work related to the Monthly Billing initiative to a deferral account as directed by the OEB

- DR 1508 Other Regulatory Assets, Subaccount Monthly Billing Capital Costs Deferral Account
- CR Property Plant and Equipment

C. To record the annual carrying charges in subaccount THESL Monthly Billing Costs

- DR/CR 1508 Other Regulatory Assets, Subaccount Monthly Billing Cost Carrying Charges
- CR/DR 4405 Interest and Dividend Income



/C