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April 3, 2015 **VIA E-MAIL**

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

Dear Ms. Walli:

Re: Vulnerable Energy Consumers Coalition (VECC)
Final Submissions: EB-2014-0116 Toronto Hydro-Electric System Limited
2015 CIR Electricity Distribution Rate Application

Please find enclosed the submissions of the Vulnerable Energy Consumers Coalition (VECC) in the above noted proceeding.

Yours truly,

Michael Janigan
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cc: Mr. Rob Barrass

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EB-2014-0116

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Sch. B, as amended;

AND IN THE MATTER OF an Application by Toronto Hydro-Electric System Limited pursuant to section 78 of the *Ontario Energy Board Act* for an Order or Orders approving just and reasonable rates for electricity distribution to be effective May 1, 2015 and for each following year effective January 1 through December 31, 2019

SUBMISSIONS

ON BEHALF OF THE

VULNERABLE ENERGY CONSUMERS COALITION (VECC)

April 3, 2015

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Vulnerable Energy Consumers Coalition (VECC)
Final Argument
Toronto Hydro-Electric System Limited 2015-19 Rates

1. INTRODUCTION

While VECC has attempted to follow the approved issues list, we have not made submissions under all categories. As noted by other parties, in many ways the development of the issues during this proceeding do not neatly lend themselves to the issues list.

We have reviewed the submissions of a number of other intervenors. We have tried not to duplicate submissions were we have similar concerns, but rather note our consensus or disagreement where appropriate.

The term Toronto Hydro and THESL is used interchangeably in this argument to denote the Applicant.

1.1 Has Toronto Hydro responded appropriately to all relevant Board directions from previous proceedings?

No Submissions

1.2 Do any of Toronto Hydro's proposed rates require rate smoothing?

The table prepared by THESL and filed as an exhibit at the hearing[1] shows that the bill impacts of its proposals are below the 10% threshold that, under the *OEB Filing Requirements* requires a smoothing plan to be filed.

[1] Exhibit No. K7.5: One-Page Table Entitled "Bill Impacts."

VECC does not support rate smoothing of any rate increases arising from this Application. In our view rate mitigation was not requested, is not required and is not desirable as it misleads consumers as to the real impact of the Applicant's proposal.

2. CUSTOM APPLICATION

2.1 Is the proposed rate framework appropriate in light of Toronto Hydro's capital needs and operating circumstances and the Board's policies as set out in the RRFE Report?

Toronto Hydro's application contains proposals for a rate framework that will impose significant burdens on ratepayers and the Toronto economy largely through the development of a set of capital needs of unprecedented size. Toronto Hydro has essentially rolled up its needs for replacing infrastructure and expansion of facilities over the next quarter of a century or so into a plan that squares its spending by essentially stating there is no alternative. While its DSP admittedly is forward looking and is integrated in the sense that it provides for the setting of distribution in accordance with the requirements of the RRFE[2], it is largely an elaborate way to establish higher rates without the accountability features that are inherent in the Board's principles in developing the framework.

In particular, contrary to the requirements of the RRFE, the Board may feel that the filings of Toronto Hydro concerning its various capital projects lack the information that would show that the distributor had sought to control costs or outcomes in relation to its proposed investments.[3] In particular, and as we will show later in this Argument, the risks associated with the DSP fall disproportionately on ratepayers without minimal accountability and any mechanism to adjust revenue recovery to achievement of objectives.

By any measure, what is planned dwarfs distributor capital plans in the province. Capital expenditures average approximately $500 million over the five year period. Not

[2]Report of the Board Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach (RRFE) October 18, 2012, pg. 31
[3] Ibid, pg. 36

surprisingly, this is the principal reason for the increase in the distribution portion of the residential bill by more than 45%. This build-out, supposedly required to prevent facilities and equipment from running to fail, is part of a greater plan to continue the pattern of robust capital expenditures of some $5.6 billion until 2037. What is surprising is that while THESL wants to obtain the blessing of the Board to pursue its aggressive capital program, it feels that it premature to actually have their revenue requirement dependent on the production of results that match the rhetoric.

The bottom line is that the risks associated with the capital spend in this IRM period fall primarily on the ratepayer. THESL is of the belief that the ratepayer benefits are already baked into the formula and adjustments to the formula based on results are unnecessary[4]. The Utility's response to the challenge of outcome metrics is disconcerting:

> MS. KLEIN: I think the starting point is that reliability is an output, not the primary driver in terms of investment planning. We're not solving for a particular reliability outcome.
>
> MR. BRETT: But you are -- go ahead.
>
> MS. KLEIN: I have spoken a little bit about, you know, this capital plan is to a level that maintains reliability.
>
> We are forecasting some incremental small improvements in reliability, and that is in part because of the integrated nature of these investments, including some of these targeted investments such as feeder automation.
>
> In terms of the question about setting targets, our system is very old. A lot of the assets are past their end-of-life, and things could start breaking faster.
>
> And if this happens, and SAIDI and SAIFI could be worsening despite the investment plan, we don't think that the multi-year targets are appropriate in this instance.[5]

In our submission the suggestions of the Applicant are totally unreasonable. To imply that after a spell of unprecedented capital spending consumers should expect nothing or even degradation of service is a bit outrageous to say the least.

What is also puzzling is that while THESL has done an extensive stakeholder engagement exercise with the assistance of the Innovative Research Group (IRG)[6], it

[4] Tr. Vol. 8 pg. 118
[5] Tr. Vol. 9 ,pgs. 189-190

has arrived at what might be considered identified customer preferences without showing how the outcomes based on those preferences will be measured in operational effectiveness – something that appears to be envisioned by the RRFE Report. The Report called for "…*continuous improvement in productivity and cost performance … utilities deliver on system reliability and quality objectives".*[7] As will be noted later, the THESL's hard sell on reliability is negated by its failure to show that it can deliver on those promises.

It is acknowledged by IRG that its stakeholder engagement was influenced by the outage problems visited on large numbers of Toronto Hydro customers in the months before the process began. It was reported by IRG that some 67% of residential survey respondents were affected by the weather events associated with the December 2013 ice storm, or the July 13, 2013 flooding.[8] Avoidance of similar hardships, or at least prevention of their increase, was likely a key factor in selection of preferences:

> MR. JANIGAN: So would you say that there might have been an increased sensitivity to the issue of outages during the time of your polling?
>
> MR. LYLE: Yes. It was something that people were actually talking about on a day-to-day basis. So it was more front and centre then than at other times.[9]

Notwithstanding the proximity of the recent history of outages, and something less than a neutral lead-in to some of the questions including those examining system challenges and priorities describing the upgrades in mandatory terms[10], there was a surprisingly high number of residential respondents that could not swallow the prescribed rate increase medicine that would be required to improve system reliability. Some 34% thought the bill impact was too high and Toronto Hydro had to scale back its plans[11].

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[6] Exhibit 1B, Tab 2, Schedule 7, Appendix B, Customer Consultation Report – Distribution System Plan Review, July 2014 (IRG Report)
[7] RRFE, pg.2
[8] Exhibit 1, Tab 2, Schedule 7, pg. 124)
[9] Tr. Vol. 8 pg.90
[10] For example, one question preamble ""Despite best efforts, no electrical distribution system can deliver perfectly reliable electricity. As a general rule, the more reliable the system, the more expensive the system is to build and maintain." (IRG report page 127)
[11] IRG Report, pg.145

This may not be surprising as IRG's survey shows that 55% of residential respondents agreed with the statement "*The cost of my electricity bill has a major impact on my finances and requires that I do without important priorities.*[12]"

In VECC's view, any majority for public acceptance of THESL's big spend hinged on the maintenance of and/or increase to system reliability.

> MR. JANIGAN: Okay. I guess what I'm saying is -- is that it is -- the reliability factor might have swung -- if the reliability factor wasn't there, the significance of the rates issue might have predominated in people's minds.
>
> MR. LYLE: Well, it was clearly on their minds, because, as you have already cited, when we just asked people what their top-of-mind issues were in terms of looking for improvement, those that were looking for improvement, the most important thing they raised was cost.[13]

There are thus, as noted by Mr. Lyle, cross pressures between cost and reliability. There is no ambivalence among ratepayers towards potentially climbing rates:

> MR. JANIGAN: Okay. Now, I note as well there seems to be what I would call a high degree of sensitivity to rates and charges. Would you agree with that?
>
> MR. LYLE: Yes.

An important observation is that IRG's framework of decision for consulted ratepayers has merely the THESL plan as the proxy for maintaining or increasing reliability and the run to failure model as the alternative option, primarily for the purpose of marketing the hard sell of reliability to overcome sticker shock:

> MR. LYLE: And so a key part of the capital plan, which is where the big choices were: How much are you willing to spend in order to have how much reliability?"[14]

This extends in part to the design of the survey model itself:

> MR. JANIGAN: Why is the choice here always sort of a Luddite choice between taking the Toronto Hydro plan or simply, you know, accepting more power outages, or, on page 135, indicating that investments in new technology are more a luxury than a necessity?
>
> I mean, surely there are other options that might exist for customers, rather than simply Toronto Hydro's and, you know, laissez-faire.

[12] Ibid, Figure 4.13, pg. 140.
[13] Tr. Vol. 8 pg..93
[14] Tr. Vol. 8 pg.92

> MR. LYLE: Sure, but at this point we're not actually asking them to opine on the specifics that Toronto Hydro has proposed[15].

The currency of persuasion is clearly the avoidance of power outages and ability to effect repair in reasonable time frames.

> MR. JANIGAN: Well, reliability, though, is first and foremost?
>
> MR. LYLE: But again, we have other questions on that same page asking about how much you can afford and how much you think other people can afford.
>
> MR. JANIGAN: Yes. But if I could parse this, ordinarily they would be against the bills. They think for the future it's going to maintain reliability.
>
> MR. LYLE: Yes, they do think it would maintain reliability.
>
> MR. JANIGAN: Okay. So it is a key element as to whether or not they support it, and whether or not they join the contras, isn't it?
>
> MR. LYLE: Okay. That seems reasonable.[16]

There is no suggestion from VECC that all system expenditures maintaining or upgrading necessary infrastructure must be approved by the majority of ratepayers together with the bill increases to support the same. But while it uses system failings of the past to generate an appetite for costly capital programs, THESL fails to see that it must also show that it can execute on its aggressive plans then stand to be rewarded or penalized by its failure to use the capital expenditures to address the main reason for any existing public support.

2.2 Is the proposed CIR formula, including the stretch factor and custom capital factor appropriate?

In our submission, THESL's rate formula is responsive to RRFE paradigm only in part. In principle the proposed formula is a reasonable way to adjust rates. But we do not agree that the stretch and productivity factors chosen by Toronto Hydro are correct. In

[15] Ibid pg. 96
[16] Ibid pg. 98

our submissions the evidence of PEG on behalf of Board Staff is more compelling and logically more coherent.[17]

The larger issue however, is what role the capital plan plays in adjusting rates. It follows from the customer preferences provided in its evidence that the Utility should be subject to meaningful benchmarks which serve to both monitor the capital program and provide incentives for it to have a meaningful impact on ratepayers. The proposed adjustment for capital works (Cn) by far has the greatest impact on future rates. In our submission the rate formula cannot be deemed to be "RRFE compliant" if this aspect of it does not follow the intent of the policy. We examine this in more detail below.

The Rate Adjustment Formula

The proposed rate adjustment formula is:

PCI = I – X + C where C= [Cn – Scap * (I – X)]

Which can be re-written as:

PCI = (1-Scap) * (I-X) + Cn

And where:

- "**I**" is the OEB's inflation factor, determined annually
- "**X**" is the sum of:
  - The Board's productivity factor.
  - Toronto Hydro's custom stretch factor.
- "**C**" provides funds incremental to "I – X" for capital works.
  - Cn is the year-to-year change in capital expenditures divided by the past period revenue requirement (see below).[18]
  - Scap is a capital fund scaling factor calculated as the proportion of total revenue requirement divided by that portion of the revenue requirement related to capital.[19]

[17] Toronto Hydro Electric System Limited Custom IR Application and PSE Report – Econometric Benchmarking of Toronto Hydro's Historical and Projected Total Cost and Reliability Levels Assessment and Recommendations (PEG Report)

[18] For example, as forecast by THESL, if the change in forecast capital related revenue requirement from 2015 to 2016 is $27.2 million ($465.0 million minus $437.8 million), and the total revenue requirement in 2015 is $661.2, then Cn = (465.0 – 437.8) / 661.2 = 4.11%.

[19] The alternative statement of the formula is taken from PEG Report pg.50

I - Inflation Factor

Toronto Hydro proposes to use the inflation factors promulgated by the Board. We support this proposal.

X- Productivity Factors

According to the OEB, "*Stretch factors promote, recognize and reward distributors for efficiency improvements relative to the expected sector productivity trend*.[20]" Under the current methodology, which was updated most recently in 2013, utilities are assigned one of five stretch factors. Toronto Hydro is submitting alternative total cost benchmarking supported by the PSE Report[21]. They propose that a stretch of 0.30%. This is significantly less than the 0.6% stretch factor THESL would be assigned if it elected the Price Cap IR option. The proposed stretch factor is supported in the PSE Report.

In our submission there is no compelling evidence to support this level of adjustment. Board Staff commissioned PEG to review THESL's proposal, and specifically the PSE benchmarking study. The review is largely unfavourable. In particular with respect to the stretch factor PEG states:

> PEG's review finds this conclusion (a 0.3% stretch factor) is unwarranted. A more accurate appraisal indicates that, in a US-only benchmarking study, THESL's costs are projected to be 34.7% above its expected costs under the Custom IR plan. A 34.7% difference between projected and benchmark costs would put THESL in the cohort of distributors assigned a 0.6% stretch factor in Price Cap IR. This finding supports PEG's conclusion regarding THESL's cost performance in our Ontario cost benchmarking study.
>
> ……

[20] EB-2010-0379 Rate Setting Parameters and Benchmarking under RRFE, Pg.19

[21] Exhibit 1B, Tab 2, Schedule 5, Appendix B – Econometric Benchmarking of Toronto Hydro's Historical and Projected Total Cost and Reliability Levels (PSE Report).

> Since THESL displays poor cost performance and average to poor reliability performance, PEG believes a stretch factor in excess of 0.6% is defensible for THESL. While the Board has previously linked stretch factors to past cost performance, rather than past reliability performance, the latter may arguably be appropriate for at least two reasons. One is to hold management accountable and establish consequences for sub-par reliability. A second is to compensate customers for the poor reliability they have been experiencing. Customers experience outage costs and/or lost value when their demands for continuous power deliveries are "unserved" because of power outages. Raising the stretch factor to reflect poor reliability performance would reduce the rate of price escalation customers experience and thereby partially compensate them for this lost value[22].

In our submission the stretch factor should be set at 0.6%. We agree with PEG as to the incentives that a higher stretch factor would provide. We also have sympathy for the argument that Toronto Hydro as a poor performing utility should have greater incentives in the plan. We simply differ as to what those incentives should be and how they should affect the rate formula.

Whereas it is PEG's recommendation to apply the stretch factor to the capital component of the formula, our proposal, set out below, is that the capital component be adjusted by outcome metrics[23]. The metrics would be measured against projections already provided in the Application.

With the exception of the capital adjustment factor (see Cn below), VECC supports the X factor changes recommended by PEG. We find their evidence a compelling rebuttal to the PSE evidence of Toronto Hydro.

Cn – The Capital Adjustment Factor

Cn is a method of including the capital additions of the Utility into the rate making formula. We agree with the PEG that "[*T]his is a sound method for ensuring that the C*

[22] PEG Report pg. 49-50
[23] Ibid pg.50

factor reflects only incremental capital spending (i.e. capital spending in excess of that implicitly provided under the inflation minus X adjustment formula).[24]

We also agree with PEG that the method which Toronto Hydro has chosen to implement this principle is seriously deficient of meeting the requirements of the RRFE policy.

Toronto Hydro has begun to embark on an ambitious capital program. Both the 2014 and 2015 spending levels in particular are unprecedented. What is just as clear is that any major increase in capital spending should result in major improvements on reliability. This point was made by Toronto Hydro's own expert:

> MR. JANIGAN: There's no other way you can accomplish this task? I mean, it seemed like a pretty cut and dried kind of thing here from your reply evidence, that you increase distribution capital costs X amount and you can expect this kind of return in SAIDI, and I don't know what kind of return in SAIFI would be predicted by the model.
>
> That certainly would be very helpful for us looking at, you know, what -- the benefits of the capital program as expounded by Toronto Hydro.
>
> Is it possible you can do something within a margin of error, without having to, you know, burn the midnight oil?
>
> MR. FENRICK: I think, as we mentioned in the section, for instance, for WPS, their capital costs were increasing by 43 percent over that five-year period.
>
> And based on that, we found a 12 percent reduction in SAIDI would be the benchmark, you know, based on the industry. We think 12 percent.
>
> I've already provided kind of the preliminary estimate without precisely doing it, in that, you know, Toronto Hydro here is increasing their plant by 25 percent and then projecting in -- what is it -- 18.7, 18.7 percent increase.
>
> So here you have a lower net plant increase compared to WPS, and right about in the same ballpark as far as -- you know, Toronto Hydro is a little lower as far as the SAIDI impact, but pretty close, in the ballpark.

[24] Ibid pg. 52

A lot of evidence was led by competing experts on Toronto Hydro's reliability and total costs benchmarks. Much of it quibbles around the uncontestable point that Toronto Hydro is a poor performing utility as compared to almost any other distribution utility in Ontario. The issue, in our view, is not to resolve an argument about how bad they are, but rather how this Utility might improve its performance. The capital program purports to do that, but without any means of testing in the plan's implementation the veracity of that claim the issue is moot.

Under the current proposal, only one adjustment, the scaling factor, is made to the capital component of the rate formula. VECC supports the inclusion of this adjustment. However, it is clear that in and of itself this will do little to offset the large rate impacts of the capital program.

In our submission, to address this problem the rate formula's capital component needs to be amended in the following ways:

- an adjustment to incorporate the change billing determinants;
- an adjustment to incorporate the achievement of the plan in each to reach reliability targets;
- an adjustment to incorporate a measure of the success of implementing the distribution system plan

VECC supports the rate adjustment formula proposed by Toronto Hydro provided it is amended to incorporate both the billing determinant factor proposed by PEG and the capital adjustments proposed by VECC below.

The reason we support, with qualifications, Toronto Hydro's proposal because it is, in design, a true custom incentive rate plan. It delinks cost of capital and load and revenue forecasts from rates. It provides for the setting of rates that allow the utility to reap benefits it is able to operate more efficiently, while – capital issues aside – keeping rates below inflation.

The qualifications to our support are, however, significant. First, the formula must be adjusted to provide incentives to implement the capital plan efficiently. Second, in our

submission, the initial test year rates, determined by what is in essence a cost of service filing are severely inflated. If allowed, the Utility would reap the rewards of profligate spending in 2014 and 2015 for the subsequent 4 years. We address both these issues in detail below.

2.3 Will Toronto Hydro's Custom Application produce acceptable outcomes for existing and future customers (including, for example, cost control, system reliability, service quality, and bill impacts)?

The one area in which the plan is seriously deficient is in the development and implementation of outcome based metrics. THESL identified a number of capital performance measurements which go to measuring the success of implementing the program. Using the RRFE as a guide, Toronto Hydro developed three categories of performance measures:

- Customer-Oriented Performance;
- Cost Efficiency of Planning Quality and Implementation; and
- Asset / System Operation Performance.[25]

However, there is no link between these measures and the objectives of a distribution plan to distribute quality power reliably. The measures, which are buried in the distribution plan, say nothing about how they are used to modify the plan or the rates which result from it. This is because they have no role.

In the following section we examine how this shortfall might be remedied using the available evidence and metrics already developed by Toronto Hydro.

Outcome Measures/Metrics

Based on the three areas identified in the RRFE policy, Toronto Hydro has developed twelve outcome based metrics. These are set out in the table below.[26] In our view the categorization is overly complicated and it is more intuitive to think of the metrics as

[25] Exhibit 1B, Tab 2, Schedule 2, pg.7
[26] Exhibit 2B, Section C

addressing three customer focused concerns: (1) reliability of service; (2) quality of service; and (3) cost of service.

In this argument we do not address the issue of quality of service. By that we mean we do not address the issue of whether Toronto Hydro delivers ancillary services such as power quality, billing, connect/disconnect or other customer transactions in an efficient way. Some measures of these services exist within the mandated scorecard but none affect how rates are set. While quality of service metrics might in the future form part of a rate formula, we see no compelling reason to incorporate them into a rate plan at this time[27].

Customer-Oriented Performance	Cost Efficiency/ Effectiveness of Planning and Implementation	Asset/System Operation Performance
1 System Average Interruption Duration Index (SAIDI). 2 System Average Interruption Frequency Index (SAIFI). 3 Customer Average Interruption Duration Index (CAIDI). 4 Feeders Experiencing Sustained Interruptions (FESI). 5 Momentary Average Interruption Frequency Index (MAIFI).	1. Distribution System Plan Implementation Progress. 2. Planning Efficiency: Engineering, Design and Support Costs. 3. Supply Chain Efficiency: Materials Handling On-Cost. 4. Construction Efficiency: Internal vs. Contractor Cost Benchmarking. 5. Construction Efficiency: Standard Asset Assembly Labour Input.	1. Outages caused by defective equipment. 2. Stations capacity availability.

[27] Having said that we note that parties have raised the issue of large customers suffering quality of power issues. See Vol.9 pgs. 168-170 for a discussion on this issue and Undertaking J9.6. From this discussion it would appear that issues of power quality are caused by the same factors affecting reliability.

THESL's customer-oriented performance measures deal with reliability of service as does the metric of outages caused by defective equipment. All the other metrics are really measures of the effectiveness of implementing the distribution system plan.

What evidence is missing is how these measures relate to the capital investment programs set out in the DSP. This is particularly puzzling since Toronto Hydro has broken down its capital spending into "trigger" areas which intuitively lend themselves to assignment to the various metrics. That table is set out below:[28]

Trigger Driver	2015	2016	2017	2018	2019
Failure Risk	156.9	130.3	134.9	151.4	156.8
Functional Obsolescence	80.6	105.5	78.3	75.1	74.5
Customer Service Requests / Third Party Requests	55.3	71.7	82.9	76.6	69.8
System Maintenance & Capital Investment Support	69.5	50.8	32.3	32.1	27.9
Capacity Constraints	51.2	31.0	37.1	22.5	44.4
Failure	31.9	32.7	33.1	33.6	34.2
Other	10.3	19.9	28.8	38.3	49.9
Mandated Service Obligations	28.0	20.6	16.7	12.9	14.6
Reliability	11.0	9.4	13.8	13.8	17.4
System Efficiency	11.7	16.2	11.6	13.2	12.2
Safety	17.2	13.7	0.0	0.0	0.0
Total Capital Expenditures	**523.6**	**501.7**	**469.6**	**469.4**	**501.6**

[28] Exhibit 1A, Tab 2, Schedule 1

In our submission Toronto Hydro should have taken the next logical step of assigning the triggers to the different metrics it has developed. In some cases this is would seem a relatively straightforward exercise. Clearly spending on "Reliability" should be reflected in the reliability metrics (e.g. SAIFI, SAIDI and outages by Equipment Failure) For other categories the trigger and the related metric are less clear. Nevertheless would be possible for THESL to have aligned the trigger costs with a related outcome metric. By doing so it could then have measured the success of its different categories of spending.

To show how this might work we have reproduced the 5 year average SAIFI/SAIDI actual and targets given by Toronto Hydro[29].

	5-Year Average (2009-2013)	5-Year Average of CIR Plan (2015-2019)
SAIFI	1.42	1.20
SAIDI	1.18	1.05

In this example, over the life of the plan Toronto Hydro expects a 15.5% decrease in the 5 year SAIFI average. On a straight line basis, this means there should be a 3.1% decline in SAIFI in each year of the plan. Conceptually then one could then measure actual results against this target and adjust the capital component accordingly. If for example, Toronto Hydro only achieved 50% of the 3.1% reduction in 2015 there would be an adjustment of the capital value in Cn by a proportionate amount. In this way the capital component of the rate adjustment would reflect the effectiveness of the capital program and not simply, as the case is now, the quantity of spending.

There are of course, a number of issues with this approach. Ideally the metric would be measured against the most relative spending categories, or triggers. While Toronto Hydro did not attempt to relate its triggers to the DSP metrics we believe that the application of the outcome metrics to the capital portion of formula could be adjusted so as to apply to the entirety of the capital budget.

[29] 2A-EP-8

The more difficult task is choosing what metrics are most meaningful. VECC has been critical in other forums about the reliance on the SAIDI/SAFI/MAIFI reliability indices due to their inherent instability.

In the following two sections we discuss what metrics we believe would best represent achievement of reliability improvements and efficient implementation of Toronto Hydro's DSP. While our approach is more complicated than the simple application of the stretch factor to capita suggested by PEG, we think it more meaningful. Outcome metrics would cause capital spending to be more closely monitored and the distribution plan to focus on what customers are concerned with. That is it would be more "customer focused" than either THESL's formula or PEG's modification to that formula. We also think our proposal is more in keeping with the RRFE policy in that it is an "outcome" based approach as called for by the Board. As such it provides built- in performance incentives to the utility.

Whether the Board determines there is merit in our proposal or not we would strongly argue that the Cn portion of the rate formula in its original form is seriously deficient.

Using our approach and to make the adjustment simpler and more straightforward, we propose that the Board focus on only two metrics. One which has a clear relationship between capital investment and reliability and the other with is a clear indication of the efficiency of the implementation of Toronto Hydro's distribution system plan. We discuss these two metrics in the following sections.

Measuring how the DSP improves reliability

The most commonly used measure of reliability are the SAIFI/SAIDI/MAIFI metrics. Unfortunately these "catch all" metrics intermix a number of outage cause codes, many of which have little to do with capital investment. As a consequence the SAIFI type of metric suffer from large variability due to weather and other incidences beyond the control of utility management. A sub-category SAIFI which removes "major event days," (MEDs) in an attempt to partially address this issue, is of little value also. Not all utilities define MEDs in the same fashion. More importantly, MEDs simply remove prolonged or severe outages regardless of cause. This means that a major failure caused by severe

weather, and a major failure caused by poor transformer station maintenance are equally excluded.

In our submission the Board should focus on the metric of outages due to failed equipment. This metric is most closely linked to the performance of the utility's capital and OM&A maintenance plan. To be sure it is also an imperfect measure, but we would argue it is the best proxy available. It is also acknowledged in the industry to be a leading indicator. Toronto Hydro provided evidence of this by way of the outside expert opinion provided by the KEMA &UMS Group. This engineering group, retained to advise Toronto Hydro and Hydro One on how to present capital programs to the Board had the following to say about outage metrics:

> Most natural phenomena, such as weather and animal related failures, are modeled as purely random. Equipment failures, on the other hand, are driven by conditions varying over time and they are modeled in detail. Their underlying failure causes can then be aggregated to understand their impact on reliability. It is important to note that there are solutions and mitigation measures that can be taken for both types of failures[30].
>
> There are a number of avenues to take that can bolster an electric utility's case:
>
> — Past investment and spending patterns can be shown to be proper with respect to maintaining service level performance.
>
> — Empirically derived asset replacement costs can be benchmarked and used to validate future asset replacement budget requests.
>
> — Planned mix of investments can be shown to be properly aligned and balanced to address risks posed by a statistically assumed equipment failure profile (typically performed at the asset category level).
>
> — Sound asset management frameworks around asset mortality and resulting asset replacement profiles can be used to validate the amount of asset replacements in a given budget request[31].

What this shows is that the use of equipment failure as indicia of the effectiveness of capital investment is well accepted within the distribution system community. In fact

[30] Exhibit 1b-SEC-8 Appendix L, pg.26. Review of Reliability of Supply to Toronto Hydro (October 2014).
[31] Ibid pg.76

Toronto Hydro keeps detailed records with respect to outages due to equipment failure as demonstrated in the response to one interrogatory shown below:[32]

Line No.	Description	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual
		(a)	(b)	(c)	(d)	(e)
	Due to Equipment Failure					
1	Customer affected by Outage On-Peak	256,629	253,663	221,487	225,750	208,890
2	Customer affected by Outage Off-Peak	261,910	237,661	213,091	233,387	204,886
3	Total Customer affected by Outage (line1 + line2)	518,539	491,324	434,578	459,137	413,776
4	Percent Customer affected by Outage On-Peak (line1)/(line3)	49.5%	51.6%	51.0%	49.2%	50.5%
5	Percent Customer affected by Outage Off-Peak (line2)/(line3)	50.5%	48.4%	49.0%	50.8%	49.5%

Toronto Hydro has provided a number of ways to measure outages due to ineffective equipment. It can be done with an overall measure, by type of equipment failure, or as a proportion of a SAFI/SAIDI metric[33]. However, the Utility has only provided reliability projections in the DSP based on the SAIFI/SAIDI form of metric. Therefore if the objective is to judge the plan against a forecast we must use the percentage of outages due to equipment failure as our outcome metric. The tables below shows THESL's forecast for that metric[34].

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
SAIFI	46%	40%	38%	45%	37%	40%	39%	38%	37%	36%	35%
SAIDI	50%	38%	41%	54%	40%	54%	42%	40%	39%	37%	36%

[32] 2-AMPCO-19

[33] See for example Exhibit 2A, Tab 10, Schedule 2 for examples of different measures of defective equipment outages.

[34] 2A-EP-9

Table 2: Five-Year Average SAIFI and SAIDI Contribution by Cause Code[35]

Cause Code	Contribution % to SAIFI	Contribution % to SAIDI
Defective Equipment	41.1%	44.3%
Unknown	12.0%	2.6%
Loss of Supply*	9.6%	5.9%
Foreign Interference	9.3%	9.4%
Tree Contacts	9.0%	12.8%
Adverse Weather	8.7%	11.3%
Lightning	3.5%	5.2%
Scheduled Outage*	3.2%	6.2%
Human Element	2.7%	1.0%
Adverse Environment	0.8%	1.3%

* Excluded from typical system analysis when demonstrating the true condition of THESL's system

In each year of the plan Toronto Hydro should be able to measure the actual contribution of defective equipment to SAIFI/SAIDI against the expected amount based on the 5 year average multiplied by the SAIFI/SAIDI project for that year.

One could also use the increase in the capital budget to project an expected defective equipment/SAIFI outage. For example, based on the fact that the 2015-2019 capital budgets exceeds the 2009-2013 budgets by 35%, one might expect a proportionate improvement in outages due to equipment failure. That is, based on Toronto Hydro's level of spending the contribution of defective equipment to SAIFI would be reduced from 41.1% to 26.7% (i.e. (1-.35) x41.1). On a straight-line basis this would result in an expected change in outages due to equipment failure declining by 2.9% per year (i.e. (41.1-26.7/5)).

We recognize that the above calculation is necessarily approximate. One might not expect 100% increase in the capital budget to lead to a total elimination of outages due to faulty equipment. Because it is an approximation our proposal would be to use a proxy of a 2% improvement in the proportion of outages caused by equipment failure

[35] Exhibit 2A, Tab 10, Schedule 2

(as opposed to the 2.9% calculated above). To the extent Toronto Hydro underperforms it would proportionately reduce the Cn component of the rate formula.

In our submission, the application of such an adjustment to the Cn portion of the formula would result in significant incentives to the Utility. It would also limit the rate increases to consumers to an amount shown to improve the reliability of their service.

Measuring the success of how the DSP is implemented

The second outcome metric we propose address the issue of how effective the Utility is in implementing its distribution system plan. Toronto Hydro has filed a substantive distribution system plan in support of its extraordinary capital spending program. Navigant Consulting Ltd. was retained to review the program. As noted by AMPCO that review was cursory and provides little to understanding the value of the program[36]. The reality is that the Board is faced with a difficult task in judging the prudence of a utility's large ongoing capital program. The Board will necessarily be cautious in the face of the asymmetric nature of the information. The Utility knows much more than the regulator or intervenors can hope to understand through the filing of evidence in a proceeding no matter how thorough the process. The Board will necessarily be concerned that customers have reliable and safe service.

Even if the Board finds the distribution system plan prudent, this does not mean the plan will be implemented efficiently or provide the results in the fashion stated. There are a number of reasons for this. The most obvious (and least objectionable) is that in the process of implementing the plan, new information comes to light causing change. This can be in the forecast demands of customers, or as a result of the examination of plant when maintenance or replacement is being undertaken. It can also be the result of changes in management or management objectives. Or it can be the result of bad planning and/or ineffective plan execution. This means that it is important to establish a metric to evaluate whether the plan is serving the needs of customers. In this regard Toronto Hydro has developed five different measures. These measures are described below.

[36] AMPCO Argument pgs. 13-14

DSP Implementation Progress

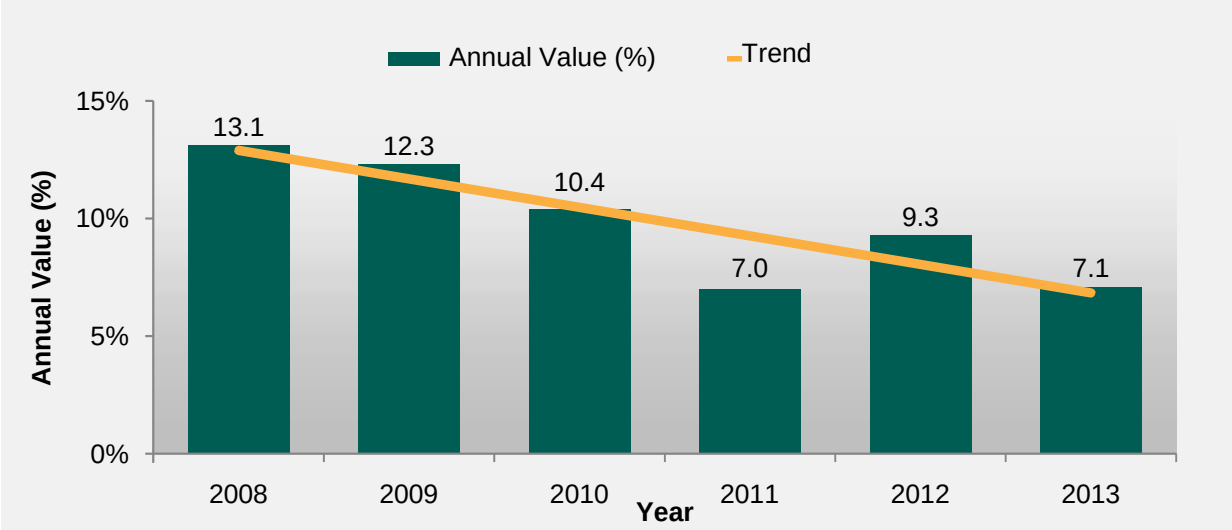
$$\text{Implementation Progress} = \frac{\Sigma \text{ Spend Year n + \$Spend Year n + 1 …)}}{\text{\$ Five Year OEB Approved Plan}} \text{ [\% of plan]}$$

This metric simply measures the amount the utility has spent in respect to its expected spending. It has little value as a measure of the success of the distribution system plan. In fact, such a metric can result in perverse incentives, as might be the case, for example, when the Utility manages to build the same amount of rate base in the plan, but at a lower than expected cost.

Planning, Engineering &Support Cost Efficiency(%)

$$\frac{\text{\$ Capital Planning, Engineering \& Support Spend (Dx Plant)}}{\text{\$ Total Capital Spend (Dx Plant)}}$$

This measure is roughly akin to the proportion of administrative costs to program costs used by many organizations. In VECC's submission, it is a reasonable measure of how much is being built as compared to the ancillary costs of planning or organizing the building of plant. The historical trend for this variable is shown below:



1 **FIGURE 9: INDIRECT LABOUR % OF DX PLANT EXPENDITURES – 2009-2013**

This metric shows that Toronto Hydro has been improving its implementation of capital plans as measured by the proportion of capital assets built to administrative/planning costs.

Supply Chain Efficiency

It describes the metric as "[T*]he supply chain and warehousing costs are added to the total costs of capital projects through the service charge referred to as "On-Cost," which is applied as a percentage of the project's total costs. Since capitalized warehousing activities make up a material portion of each project's final costs, Toronto Hydro proposes to track the annual On-Cost*"[37]

Over the 2015-2019 planning horizon, the utility expects its On-Cost rate to decline because of anticipated attrition and other productivity and efficiency improvements, including the deployment of a third-party warehousing outsourcing model that began in 2013. Toronto Hydro has stated that it does not have previous experience in tracking this measure. Notwithstanding this THESL provided a historical performance trend.

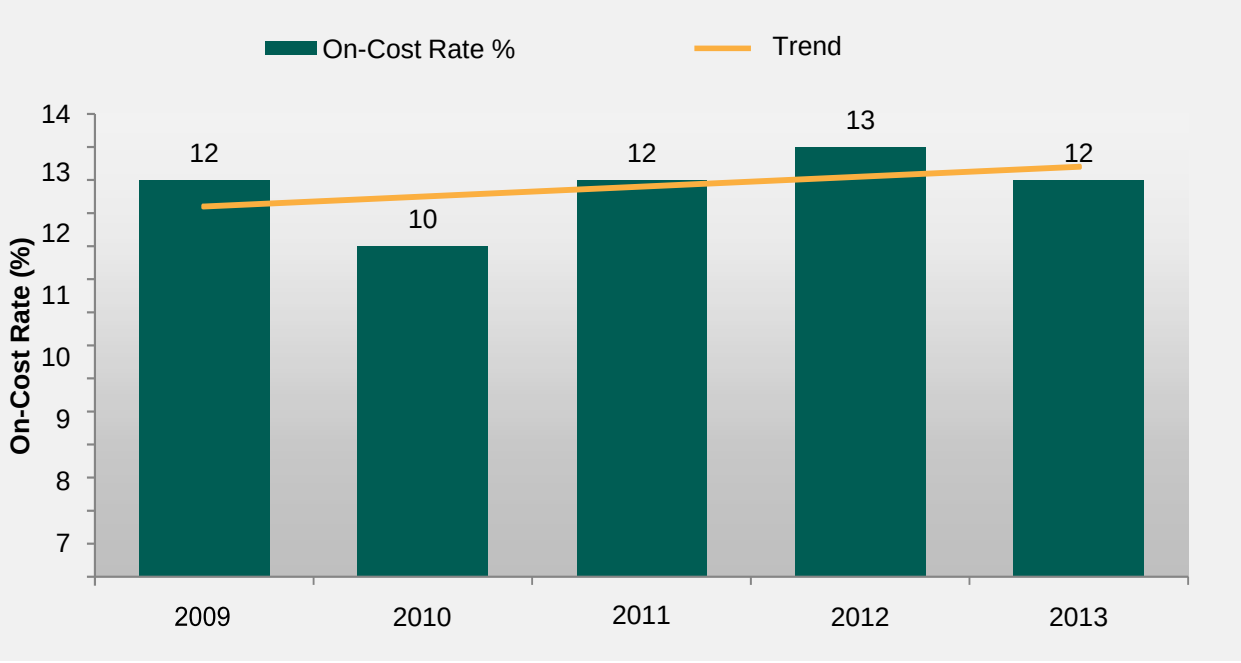


FIGURE 10: ON-COST PERFORMANCE (%) – 2009 – 2013

[37] Exhibit 2B, Section C, pg. 20

Construction Efficiency – Internal vs. Contractor

This is a measure being developed by Toronto Hydro to assess the efficiency of internal vs external contracting. In our view it is a good measure for the Utility's management to understand whether (and when) it might be best to outsource capital programs. The measure is based on a sample of reference projects.

We support the informational use of this measure as it studies the merit of separating construction from maintenance and resourcing these functions differently. This is concept used by many other large utilities, most notably Enbridge Gas Distribution. However, we do not think the metric lends itself to being a measure for adjusting the rate formula

Construction Efficiency – Standard Asset Assembly Labour inputs

This is another management form metric which is being developed to help Toronto Hydro manage the implementation of capital programs. The metric may be of value for planning purposes but has little to offer as a way of adjusting the rate formula.

Proposed Metric for Implementation of the DSP

In VECC's submission, the Planning, Engineering &Support Cost Efficiency (PESCE) metric and the Supply Chain Efficiency (SCE) metric are both relevant measures of the efficiency of implementing the DSP. Toronto Hydro has trend measures for both metrics which could be used as baseline figures from which to adjust the figures.

Given the newness of the supply chain efficiency metric, and for the sake of simplicity, we advocate using the PESCE metric as an outcome measure. We submit the Board should use as a baseline figure the average of the three years 2011-2013. This would yield a baseline of 7.8% which the Utility would be required to not exceed. Our proposal would be that the Cn adjustment be lowered by the same amount as any underperformance against this benchmark. For example, if the PESCE in 2015 were 10% the utility would be required to adjust the Cn amount downward by 36%.

While our proposed method of adjusting the Cn portion is detailed and new we believe it represents a path forward in the assessment of capital programs. Since the

requirement of utilities to file a comprehensive distribution plan, VECC has noticed an overwhelming trend toward larger capital budgets. There can be many reasons for this some which are based on facts and some which are based on the inherent incentives which cause utilities to over build their systems. In our submission it is important that the Board find outcome metrics which counteract these tendencies.

While Toronto Hydro is proposing a custom incentive rate plan, the capital portion of that plan is created as it would be in a cost of service proceeding. In these circumstances "gold platting" is a well-established phenomenon. It does not arise out of any nefarious action on the part of the Utility. It is simply the natural outcome of the built in incentives when rates are set on the basis of pre-determined costs. The Board has taken a major step toward addressing this issue by requiring utilities to file comprehensive distribution system plans which justify their capital programs. However, without some form of measure or metric to understand if the plan is being efficiently implemented, the efforts to prevent the structural incentive to overspend will be compromised.

Why not use outcome metrics now?

As noted above, Toronto Hydro has resisted the application of outcome measures as a means of adjusting either its capital spending or its rate formula. Yet they have also provided, and continue to provide forecasts of reliability metrics including SAIFI and SAIDI. This begs the question of what purpose this serves if not to be used as a comparison to actual reliability outcomes

We recognize our proposal is a departure from the proposed rate formula. If the Board is convinced that outcome metrics are a desired part of the rate plan, but remains uncertain as the particular details of those metrics, it could proceed in a number of different ways. It could deny the application and direct the Utility to develop a meaningful capital adjustment component to the formula. Alternatively it might, find, as it did in the recent case of Hydro One Distribution (EB-2013-0416) that there is sufficient evidence to approve the application but for a shorter period. Three years has

been suggested by some parties. In this case we would argue that during this period Toronto Hydro should be directed to develop such metrics.

If the Board were to decide to approve the five year plan in its entirety then we submit that it should direct the Applicant and intervenors to come up with an outcome adjustment methodology. In this case, the Board might order the Applicant to develop an appropriate capital adjustment based on the metrics prior to it finalizing rates for 2015.

2.4 Are Toronto Hydro's monitoring and reporting proposals adequate to track and assess the utility's performance during the 2015-2019 rate period?

Clearly, the RRFE intended the monitoring and reporting element of a utility's custom application proposal to verify the achievement of performance outcomes. As the report notes:

> "The achievement of the performance outcomes will be supported by specific measures and targets of annual reporting…..Under the renewed regulatory framework a distributor will be expected to continuously improve its understanding of the needs and expectation of customers and its delivery of services , which, in turn can lead to reduced costs for customers"

It is difficult to understand precisely what meaningful monitoring will take place as a result of reporting and monitoring of the operation of the THESL proposal during the course of the five year period. It is clear that THESL intends to follow the accounting order associated with the ICM capital spending dealing with a true up of forecast spending with assets actually in service:

> MS. KLEIN: And what it says at the bottom of page 2 and the top of page 3 -- and I think that this lays out the way that we have approached it and will also be approaching it at true-up -- is that:
>
> "At the time of true-up Toronto Hydro will recalculate the revenue requirement using the ICM work form, based on the actual in-service assets within the Board-approved ICM segments and the sub-accounts of 1508..."
>
> "Et cetera, and that:

> Those recalculated revenue requirements on an actual basis will be compared to the ICM rate rider revenues to determine the variances; i.e., underspend or prudent overspend amounts.[38]"

In addition, THESL promises that they will report during the ICM period as follows [39]

> 1) Meeting the Ontario Energy Board's ("OEB") Scorecard Approach for Performance Measurement;
>
> 2) Reporting on the Proposed Performance Measures Framework as detailed in the Distribution System Plan (DSP); and
>
> 3) Filing a rate schedule for the following year upon the OEB's update of its inflation factor.

However, for the purpose of any review that effects a change that might take place during the five year ICM period, it is clear that THESL would wish the Board and intervenors to be content with the veracity of their projections whatever the in- period results might show:

> MR DUMKA: At the end of 2019 you will have, broadly speaking, the same circumstances you have had with the ICM, so is there an intention to do a true-up on the 2019 year-end?
>
> MS. KLEIN: No, there is not. The way that we have structured the rate-setting for the CIR is that it would be on the basis of base rates, with the mechanistic adjustment in the out years. There is not a rate rider and true-up portion contemplated as part of the application.
>
> MS. KLEIN: The short answer to your question, Mr. Dumka, is no, we are not proposing any true-up for the plan during the period on an annual basis. What you have is forecasts before you today and the values that are associated with those forecasts." [40]

The THESL language articulating this position bears unpacking as to what it actually means. The Application contemplates the annual spending of one half billion dollars of an infrastructure program of some $5.6 billion dollars but the yearly adjustment process- based on the IR formula will not touch the pass through of the capital spending . This untouchability extends to the adjustment for forecast capital

[38] Tr. Vol. 8, pg. 25
[39] Exhibit 1B, Tab 2, Schedule 6
[40] Tr. Vol. 8, pg. 40/43

expenditures that are not actually incurred or not in service as well measurements touching upon the effectiveness or performance of those capital additions.

One of the purposes of utility regulation is to function as a proxy for competitive markets. Would a low risk player in a competitive market ever decide to embark on a five year plan featuring a forecast capital program larger than ever attempted by the Company with similar ambivalence to the need for intermittent reviews during plan? THESL's proposal is virtually immune from adjustment based on effectiveness and accomplishment during that time. Formula based IR or other performance based schemes were not meant to adjust to the desires of the regulated utility but rather the other way around. VECC is not satisfied with the absence of an IR mechanism that ties capital into an I-X formula, Such a mechanism should have measures that ensure monitoring and tracking of performance during the period of the plan's operation.

While the contribution of THESL to the understanding of the kinds of capital refit and new facilities on its wish list is acknowledged, there has not been meaningful independent study that has reinforced the need, the pacing, as well as the timeliness of the DSP capital program. We have reviewed BOMA's argument herein and agree with its submission that the lack of prioritization among the 27 system renewal programs and the 22 remaining programs makes the very demanding pacing proposed and the subsequent rate ballooning effects questionable. Age appears to be the principal driver of replacement. Coupled with the lack of meaningful mid- course reporting as well as follow-up on the achievement of primary goal of the capital program of maintaining and increasing system reliability the custom IRM has to be adjusted to comply with the intent of the RRFE.

It is true that the questions that are raised in the discussion of the Application do not establish that there has inevitably been unnecessary gold-plating in the THESL capital program of its custom IR plan. Counsel for THESL in argument in chief makes much of the superiority of the detailed evidence of THESL over the doubts and objections raised by intervenors[41]. However, the size of the spending amount , the rate outcomes , the

[41] Tr. Vol. 10, pg.35

seemingly ever receding horizon of steady state and the assessment of the performance of the Company by the Board's own metrics necessitate more than the proposed 5 year pass through with minimal monitoring favored by THESL.

VECC notes and supports CCC's suggestion in final argument that in the absence of more intensive superintendence, and perhaps as an overall safeguard in any event, the term of THESL's IR program be limited to three years. This would allow some measure of scrutiny of the performance of THESL both in relation to its Ontario counterparts and within a comparison group similar to that used by PEG in their evidence herein. The effects of THESL investments on reliability should also be apparent at that juncture.

VECC has also made suggestions with respect to potential changes in the IR formula proposed by the Company during the IRM period. In VECC's view, the assessment and accountability for the Company's performance in the capital sphere of its operations cannot be relegated to simply a pass-through function where the only question is whether or when the assets are put in service. The virtual disconnect of capital expenditures from the performance based aspects of an IRM should be halted.

As well , VECC suggests that an independently and jointly-retained and supervised study of the THESL capital plan (with its forward looking assumptions) be prepared to be filed no later than December 31, 2016. Such a study that would look at pacing, approach, benchmarking and outcomes pertaining to the capital plan. The study would provide an independent context for capital spending going forward. The following regulatory benefits might accrue from such a study, in addition to providing confidence in the adjudication of this expensive capital program:

- it would provide model signposts for the industry infrastructure renewal
- it would help develop construction efficiency index
- it would give guidance concerning high-level best practices (forensic + how can we do better)

The consideration/implementation of the study could realistically only come into effect upon rebasing. However, it could provide considerable comfort in assessing THESL on its announced road to steady state in 2037.

2.5 Are Toronto Hydro's proposed off-ramps, annual adjustments and annual adjustments outside the normal course of business appropriate?

While Board Staff have made a number of comments under this section we do not find any issues with Toronto Hydro's proposal with respect to off-ramps or adjustments outside of the normal course of business. By its very nature such things are not predictable. We believe the Applicant has made clear that it expects to follow the normal course for such issues as both Board policy and history have dictated. We also trust the Board will make what rulings it think prudent should it believe Toronto Hydro misunderstands or attempts to misuse an off-ramp.

3. PROPOSED PROGRAMS AND EXPENDITURES

3.1 Are the planned OM&A programs and expenditures appropriate?

Toronto Hydro's historical and proposed OM&A are set out below[42].

Table 1: Historical, Bridge and Test Year OM&A Expenditures by Program

($M)	2011 Actual	2012 Actual	2013 Actual	2014 Bridge	2014 Actual	2015 Test
Preventative & Predictive Maintenance	13.7	16.0	12.8	16.1	**14.9**	20.1
Corrective Maintenance	25.8	21.5	17.0	19.0	**17.6**	22.2
Emergency Response	13.3	13.9	26.3	16.2	**17.1**	15.3
Disaster Preparedness Management	0.9	-	-	-	**-**	2.4
Control Centre	8.4	8.3	8.9	8.2	**5.5**	8.4
Customer-Driven Work	6.0	5.9	7.0	8.2	**8.1**	10.1
Planning	9.0	9.0	11.5	10.3	**9.4**	12.9
Work Program Execution Management and Support	5.0	5.5	5.6	5.8	**4.2**	6.1
Work Program Execution	14.9	13.8	13.0	14.3	**14.8**	15.2
Fleet and Equipment Services	8.7	8.5	8.7	8.4	**10.2**	8.9
Facilities Management	24.6	23.5	24.2	27.2	**28.7**	27.5
Supply Chain Services	7.1	6.6	9.0	10.3	**10.4**	9.9
Customer Care	41.9	37.5	39.7	42.2	**40.6**	46.1
Human Resources and Safety	13.7	13.2	15.3	15.3	**15.0**	16.1
Finance	16.1	14.7	15.7	17.0	**16.8**	17.9
Information Technology	30.3	28.5	31.0	33.4	**32.9**	34.9
Rates and Regulatory Affairs	7.2	7.8	8.4	6.4	**7.2**	8.4
Legal Services	5.5	4.3	4.5	5.3	**5.3**	5.5
Charitable Donations (LEAP)	0.7	0.7	0.7	0.7	**0.7**	0.8
Common Costs and Adjustments	5.7	(6.0)	0.5	2.3	**1.8**	1.0
Allocations and Recoveries	(19.9)	(17.4)	(13.3)	(19.9)	**(19.9)**	(20.2)
Restructuring Costs	-	27.7	-	-	**-**	-
Total OM&A	**238.6**	**243.5**	**246.4**	**246.6**	**241.2**	**269.5**

[3] Numbers may not add up due to rounding.

[42] 2011- 2013 from Exhibit 4A, Tab 1, Schedule 1; 2014 Actuals from Exhibit OH, Tab1, Schedule 5 Updated March 6, 2015

Board Staff has, in their argument criticized the Applicant for failing to file a five year OM&A plan. We disagree that this is necessary. It would seem to us that such a requirement simply encourages cost of service budgeting by the applicant and a similar form of scrutiny by intervenors – neither of which is in keeping with RRFE policy. What is important is whether the extraordinary levels of spending suggested for 2015 are unreasonable in light of past spending, future customer growth and capital projects. One-time costs should also be closely reviewed and eliminated or pro-rated in order to establish the proper starting point for rates under the formula.

The cumulative increase in OM&A since 2011 is 13%. The cumulative CPI for the same period is approximately 7.5%. It is also clear that Toronto Hydro has been able to control costs during the periods when it was largely unable to adjust rates. This taken with the fact that 2014 costs are below forecast suggests that Toronto Hydro has taken an aggressive approach and inflated its 2015 OM&A estimates. We suspect this arises because of the importance that 2015 costs play in setting rates for the next five years.

The significant increase in 2015 is all the more surprising given the change by Toronto Hydro to move to more contracting labour in an effort to reduce higher cost internal labour.

Three major areas of increase in 2015 OM&A since 2013 are[43]:

- Preventative & Predicative maintenance $7.2m
- Corrective Maintenance $5.2m
- Customer Care $6.4m

Taken by themselves these increases make up nearly 80% of the cost difference between 2013 and 2015.

Preventative and predicative maintenance are related to corrective maintenance costs. Toronto Hydro describes these costs as:

> [Preventative] activities emphasize preserving asset performance over the expected life of the asset, and maintaining public and employee safety…..Predictive Maintenance entails testing and inspection of equipment for predetermined conditions that are

[43] Emergency response was significantly different also, but the figures are skewed by the 2013 ice-storm.

> indicative of a potential failure …. The Preventative and Predictive Maintenance Program is complimented by the Corrective Maintenance Program … which corrects the deficiencies and addresses substandard conditions that are identified by preventative and predictive maintenance activities…[44]

Obviously such programs ("PP&C") are a necessary part of a well-run utility. What is not so obvious is why such costs would be increasing dramatically, and at the same of an unprecedented replacement of assets based on a change in capital plan strategy from run-to-fail to pre-emptive replacement. One might expect the opposite. As new assets replace old ones, pre-emptive maintenance declines since newer assets require less maintenance than older ones. Vehicle maintenance is an obvious and familiar example of this phenomenon.

Toronto Hydro explained that "[*A]lmost half of the proposed increase for Preventative and Predictive Maintenance is for vegetation management in order to improve reliability and harden Toronto Hydro's system against major storm events, with other incremental increases driven by planned ramp-up of maintenance cycles to facilitate optimal intervention times*. [45]

However, we do not find an increased vegetation management program to be compelling given the massive "forced" pruning that occurred as part of the 2013 ice-storm. The fact is, that over the past two years the City of Toronto's canopy has been significantly reduced. Again, intuitively, one would expect these costs to be in decline.

The one area we do think costs have justifiably increased is with respect to $1.6 million of corrective maintenance that THESL noted was due to the inclusion of transferred street lighting assets[46].

The average PP&C spending between 2011 and 2013 was $35.6million. If one includes the $1.6million of new street lighting asset maintenance, this is $5 million below the

[44] Exhibit 4A, Tab 2, Schedule 1, pgs. 1-2
[45] 4A-OEBStaff-66
[46] 4A-VECC-39

requested amount. In our submission, Toronto Hydro could make this adjustment to the PP&C budget for 2015 without threatening the safety or reliability of the distribution system.

Customer care costs are another area which has seen a large growth in costs. Below are a breakdown of those costs[47]:

Table 2: Customer Care Program Expenditures by Segment ($ Millions)

Segment	2011 Actual	2012 Actual	2013 Actual	2014 Bridge	2015 Test
Billing, Remittance & Meter Data Management	14.5	13.7	14.6	16.4	18.7
Collections	12.3	8.9	11.1	12.2	13.1
Customer Relationship Management	12.1	11.5	10.1	10.4	11.3
Communications & Public Affairs	3.0	3.3	4.0	3.1	3.0
Total	**41.9**	**37.5**	**39.7**	**42.2**	**46.1**

What we find interesting that billing costs continue to increase so dramatically after the implementation in 2011 a new customer information system (CSI). In our submission, this could be reduced by $3-4 million without impacting customer services.

VECC also supports the submissions of CCC with respect to regulatory costs. We note that in 2013 the Board approved $4.8million for these activities. In 2015 this amount has increased to $7million.

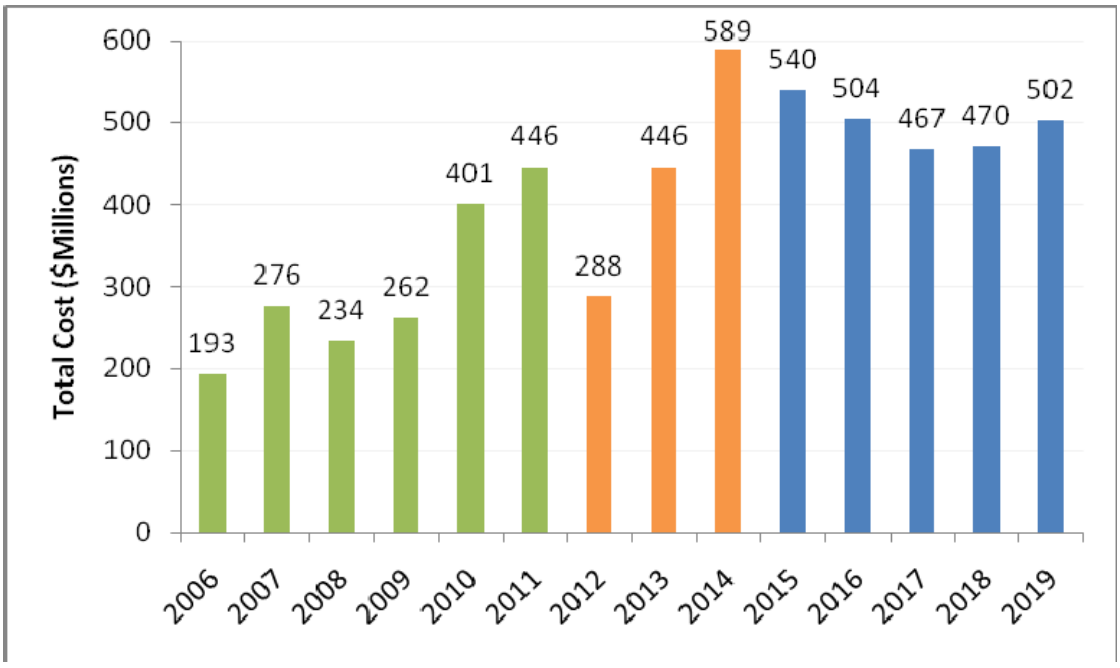
These are samples of where we think the OM&A budget could be reduced without an impact on the quality or reliability of service. Our submission is that the Board not do a

[47] Exhibit 4A, Tab 2, Schedule 13, pg.2

line-by-line review but rather that the OM&A costs for 2015 be reduced to a figure of 2% above the 2014 actual amount. This is in line with inflation. We do not think the Utility has filed any compelling evidence which would support an OM&A increase in 2015 that is above inflation.

3.2 Is the DSP and the planned capital programs and expenditures for the 2015-2019 period appropriate?

Toronto Hydro's capital program is unprecedented. It drives nearly all of the proposed rate increases over the 2015 to 2019 rate period. The spending trend is shown in the diagram below[48]:



The average capital spending in the 5 years previous to 2015 was $434 million. This includes the unprecedented spending of $589 million in 2014. The average spending for the five year period 2015 through 2019 is $497 million. This is an increase on average of 14.5%. If 2014 is removed from the comparison, the increase is even more striking.

[48] 1B-SEC-5 (Nov 5)

The question to be answered is whether the reliability of the system requires such a massive spend and whether past lower spending has resulted in a degradation of reliability. To answer those questions we examined the historical reliability trends. These are reproduced below. These graphs show the trend in reliability statistics in a period (2009-2013) when the Utility's average spending on average just $369 million per year or 35% less than the average it proposes to spend during the life of the rate plan.

SAIDI

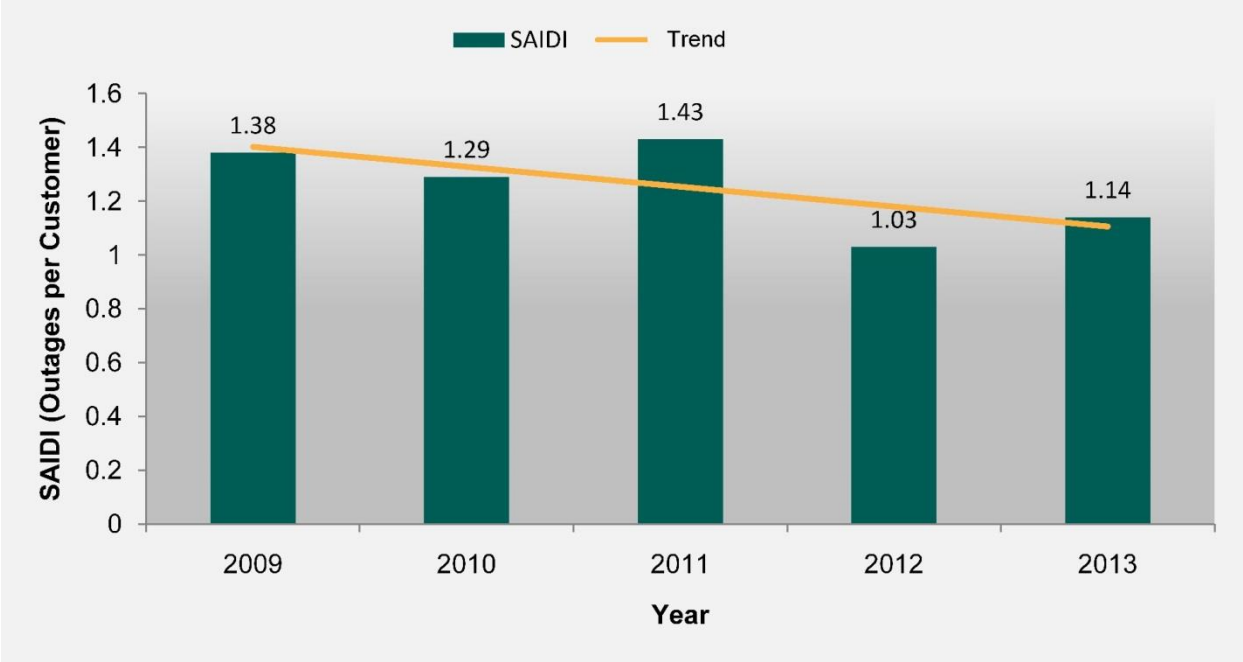


FIGURE 1: HISTORICAL SAIDI EXCLUDING MEDS – 2009-2013

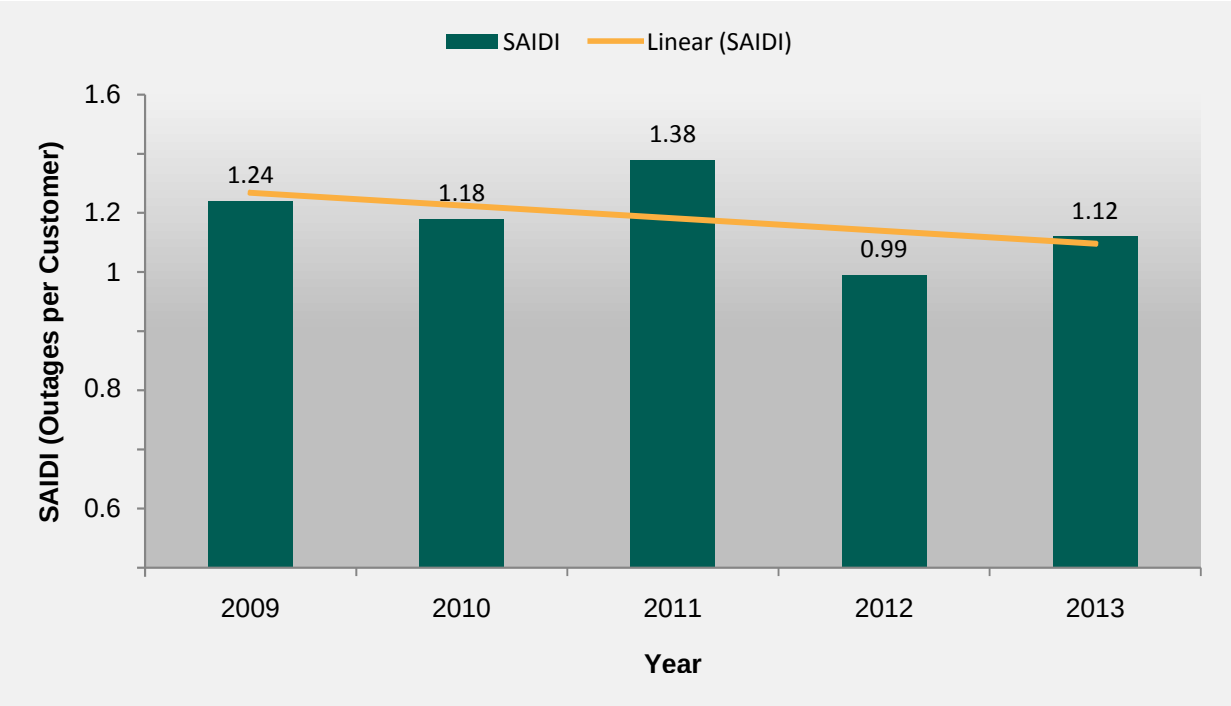


FIGURE 4: HISTORICAL SAIDI EXCLUDING MEDS AND LOSS OF SUPPLY – 2009-2013

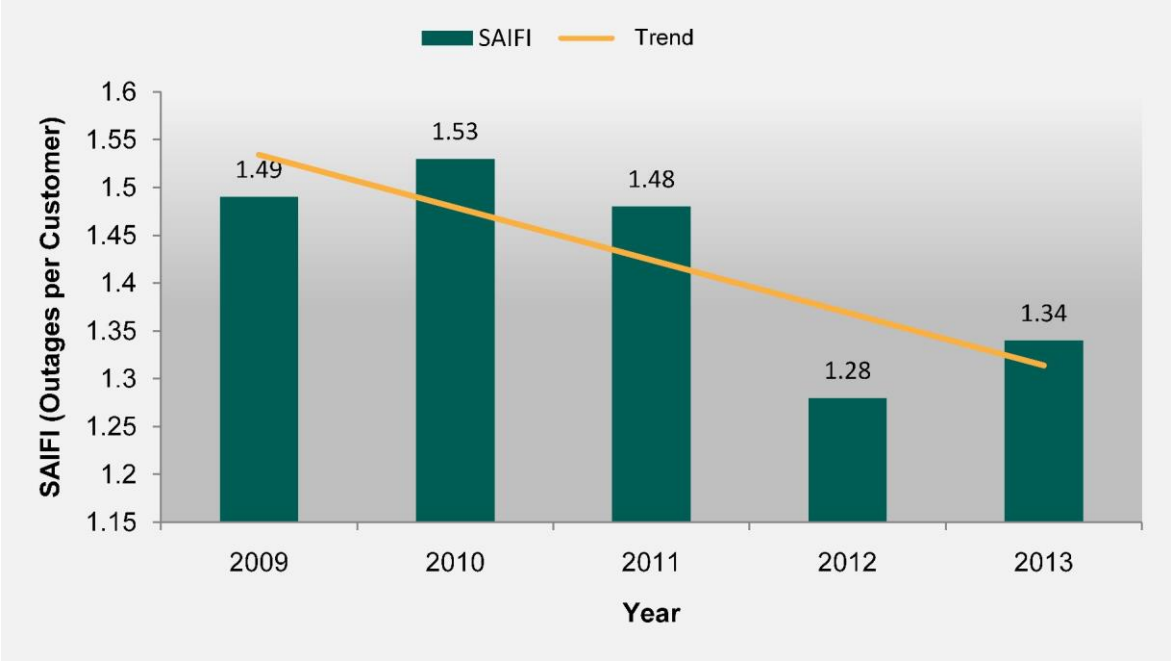


FIGURE 5: HISTORICAL SAIFI EXCLUDING MEDS AND LOSS OF SUPPLY – 2009-2013

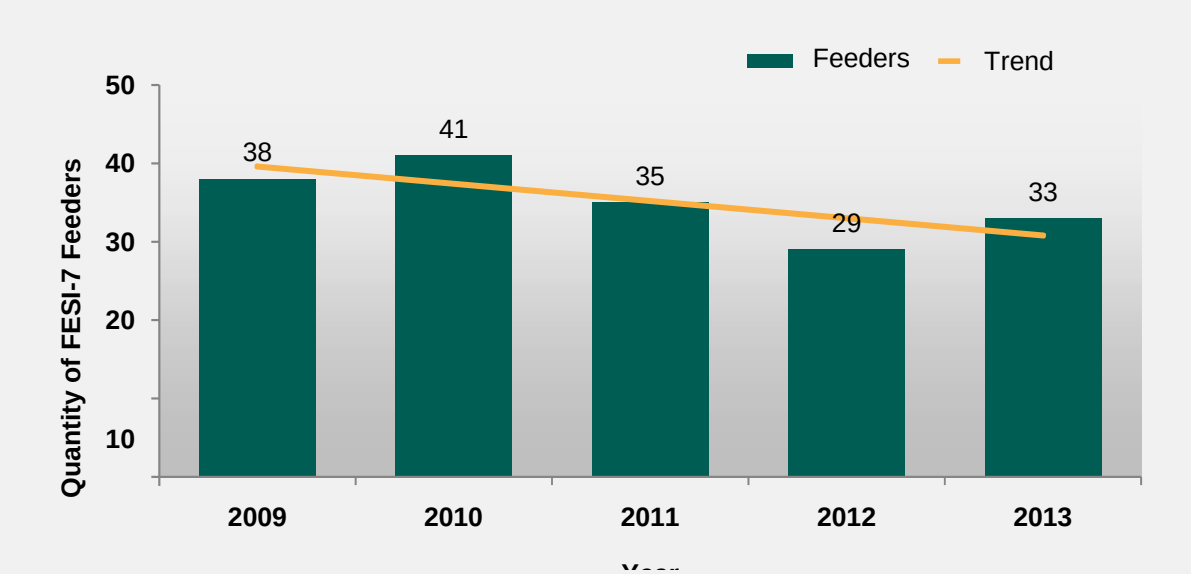


FIGURE 7: QUANTITY OF FESI-7 FEEDERS –2009-2013

OUTAGES CAUSED BY DEFECTIVE EQUIPMENT[49]

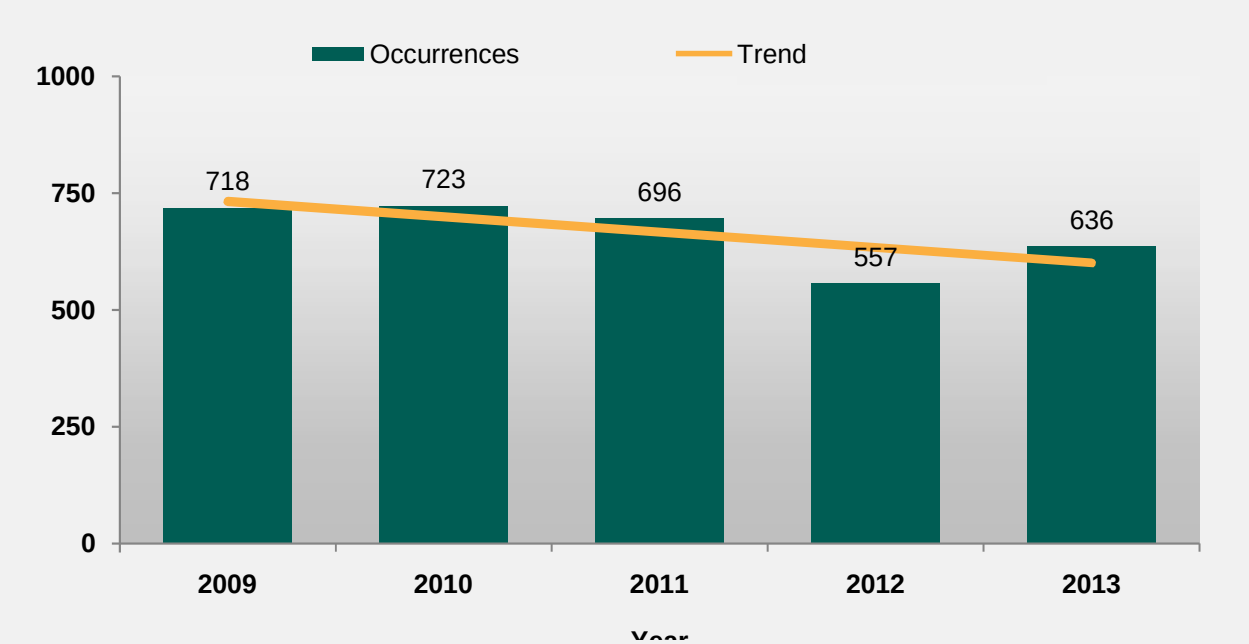


FIGURE 11: OUTAGES CAUSED BY DEFECTIVE EQUIPMENT – 2009-2013

[49] Ibid

Do reliability statistics support the large capital budgets?

In our submission the evidence on reliability does not support the proposal for an unprecedented increase in the capital program as shown by the tables below.

The reliability statistics show that the prior year capital spending have been sufficient to maintain service. We also note that all of these figures are prior to impact of the large 2014 capital spending program.

In each case, the evidence points directionally the same way – an improvement in reliability. More important, these improvements have occurred during a period in which Toronto Hydro was spending considerably less than it proposes for the next 5 years. This evidence belies the proposition that the Utility is in dire need of an extraordinary infusion of capital.

VECC has also had the opportunity to review the submissions of AMPCO with respect capital spending. AMPCO has made detailed and persuasive arguments about the Asset Management and Investment Strategy of Toronto Hydro. In our view, their arguments provide the underlying reasoning as to why the evidence of the actual service reliability outcome metrics do not support a ramped up capital spending program. We also submit that AMPCO's analysis of the condition of assets argues for the Board to adopt more aggressive reliability targets for this Utility if its capital budgets were approved as, or substantially as filed.

4. DEFERRAL AND VARIANCE ACCOUNTS AND RATE RIDERS

4.1 Should Toronto Hydro's existing deferral and variance accounts proposed for continuation be continued, and should those proposed for termination be terminated?

No Submissions

4.2 Are the new deferral and variance accounts proposed by Toronto Hydro appropriate?

Toronto Hydro is seeking a number of new deferral and variance accounts. Our submissions are limited to the issue of the one account which VECC objects to.

In our submission Toronto Hydro should not be granted a deferral account for the transition to monthly billing.

In response to a VECC interrogatory THESL estimates that monthly billing would cause an incremental increase over the current operating budget of approximately $6.1 million. This would be offset by an estimated reduction in working capital of $1.9 million. The estimated implementation costs are $3.0 million in capital costs and $2.2 in operating expenditures[50].

If the Board wishes Toronto Hydro to move to monthly billing it should so order in its decision. In this event the Utility can make the appropriate adjustments to its operating and capital budgets and include the accompanying change in working capital requirements. We do not support such a decision and Toronto Hydro has not sought to move to monthly billing.

We see no reason to establish a special category of spending for the implementation of monthly billing which in essence holds the Utility whole during a five year rate period. Such an account encourages profligate and unchecked spending and holds the Utility to scrutiny only after the fact. If the Board mandates monthly billing at a later period, then, in our view, Toronto Hydro should be able to avail itself to an off-ramp adjustment to deal with the matter at that time.

As an aside we must also note that the evidence of Toronto Hydro in this case belies the basis of the proposed Distribution Code Amendment that there are net savings in moving to monthly billing. If monthly billing is mandated, the evidence to-date is that Toronto Hydro customers will pay more not less.

[50] 4A-VECC-44 In this interrogatory THESL broke down this cost to: billing $4.3 million, collection of $0.9 million; customer care of $0.9 million and one-time costs of $3.0 million in capital costs and $2.2 million in operating expenditures. These costs would be offset by approximately $1.9 million in working capital reductions.

4.3 Are the accounts, balances and the proposed methods of disposition for deferral and variance accounts appropriate?

No Submissions

4.4 Are Toronto Hydro's proposed rate riders appropriate?

Toronto Hydro is seeking recover $33 million what it describes as lost revenue associated with the IRM Framework for 2012-214. The Utility states that otherwise "[A]*bsent relief, the permanent loss to Toronto Hydro as a result of the operation of the IRM mechanism is approximately $33 million in revenue*." VECC submits no such relief should be granted. We do soon a number of grounds:

- the matter has been dealt with in the Board's decision EB-2012-0064. The Applicant's interpretation that the proposed relief may be sought later is simply incorrect;
- in the absence of the Board previously granting the related deferral account, the relief sought constitutes retroactive rate making and is therefore contrary to law; and,
- by its own admission the relief results from the use of IRM rate making which the Applicant sought on its own volition and therefore from which any consequences, both beneficial and non-beneficial, rest solely with the Applicant.

5. REVENUE REQUIREMENT

5.1 Is the rate base component of the revenue requirement for 2015 appropriate?

Our submission for this issues are made under section 3.2 with one exception. We have reviewed the submissions of CCC with respect to the inclusion of 715 Milner Ave. and are in general agreement with them. As noted by CCC the property is expected to continue to remain vacant until 2016, and is therefore neither used or useful during the

first part of this rate plan. However, rather than excluding the property from rate base we submit that one-half the property value could be included in rate base. This proposal is based on the assumption that property becomes useful mid-way in the rate plan.

5.2 Is Toronto Hydro's proposal for the transfer of streetlighting assets appropriate?

Toronto Hydro is seeking to adjust the transfer value of streetlights from $28.9 million to $39.8 million. VECC requested a breakdown of that change as between asset evolution during the period in which the matter was first before the Board and the impact of the valuation adjustment. The result is shown below:[51]

		in millions
Value of Assets Eligible to be Transferred as per Valuation Decision		**28.9**
Valuation Changes		
Valuation Changes of 2010 Base Assets	13.0	
2011-2014 Depreciation of 2010 Base Assets	(7.6)	
Net Valuation Change		5.4
Normal Asset Evolution		
2011-2014 Additions	5.7	
2011-2014 Depreciation on New Additions	(0.2)	
Net Asset Evolution		5.5
Value of Transferred Streetlighting Assets		**39.8**

In our submission Toronto Hydro has provided sufficient evidence of the adjustment in asset value.

In its submission Board Staff raise the question as to whether issue the portion of revenue it is receiving from TH Energy's contract with the City of Toronto is equivalent

[51] 2A-VECC-11

to the portion of the assets transferred over to Toronto Hydro. In this regard we note the evidence of Toronto Hydro that the revised transfer value of the street lighting assets has no effect on the utility's revenue requirement for all rate classes other than the Street Lighting and Unmetered Scattered Load ("USL") rate classes because the costs associated with the street lighting assets are directly allocated to the Streetlighting (95%) and the USL (5%) rate classes[52].

5.3 Is the capital structure and cost of capital component of the revenue requirement appropriate?

VECC supports the submissions of Board staff with respect to this issue.

5.4 Is the depreciation component of the revenue requirement appropriate?

No submission

5.5 Is the taxes / PILs component of the revenue requirement appropriate?

No submission

5.6 Is the revenue offset component of the revenue requirement appropriate?

Toronto Hydro's Proposal

Toronto Hydro's Revenue Offsets are forecast to increase from an actual value of $26.4 M in 2013 to $45.1 M in 2015[53]. The increase is primarily due to:

- Toronto Hydro's proposed updates to its specific service charges as discussed below in Section 6.6 - $2.4 M[54].
- Increased revenues from the City of Toronto to cover the costs associated with the street light assets being transferred to the distributor - $8.1 M[55].
- Increased pole and duct rental revenues as a result of the higher proposed rates - $8.7 M[56].

[52] Exhibit 2A, Tab 5, Schedule 5
[53] Exhibit 3/Tab 2/Schedule 1, page 1
[54] Exhibit 3/Tab 2/Schedule 1, page 2
[55] Exhibit 2A/Tab 5/Schedule 1, page 22
[56] Exhibit 3/Tab 2/Schedule 1, page 4

In addition, in 2015, Toronto Hydro expects to sell idle properties at 5800 Yonge and 28 Underwriters. Given the relatively large value of these properties, Toronto Hydro proposes to not record the proceeds as part of revenue offsets, but rather to treat the proceeds as regulatory liabilities to be refunded to customers over a multi-year period[57].

VECC's Submissions

The OEB has established a separate process[58] to deal with Toronto Hydro's proposed wireline attachment rates and, as such, consideration of the revenue offsets associated with these charges are not addressed as part of these submissions.

VECC has no concerns with respect to Toronto Hydro's other proposed revenue offsets for 2015.

6. LOAD FORECAST, COST ALLOCATION AND RATE DESIGN

6.1 Is the load forecast appropriate?

6.1.1 Customer Count

Toronto Hydro's Proposal

Toronto Hydro's customer count forecasts are primarily based on extrapolation models for each rate class[59] that rely on linear and non-linear trends. The exception is the CSMUR class where the forecast is based on internal estimates of its market share[60].

The resulting 2013 to 2019 forecast growth rates for the Residential rate class and the total[61] for all the Commercial/Industrial customers (i.e. GS classes plus Large User) are roughly 0.4%/annum in each case. The growth in Street Light connections is even less while the growth rate for the Sentinel class is negative[62]. In contrast the CSMUR shows

[57] Exhibit 8/Tab 1/Schedule1, page 13
[58] Procedural Order #7
[59] Exhibit 3/Tab 1/Schedule 1, page 14
[60] 3-VECC-31 a) & b)
[61] The total is relevant as the growth rates for the individual GS and Large User classes are affected by customer reclassification per 3-VECC-31
[6262] Exhibit 3/Tab 1/Schedule 1, Appendix C-1

significant growth (almost 17% / annum) as a result of Toronto Hydro's suite metering activities.

VECC'S Submissions

VECC's primary concern with Toronto Hydro's forecast customer count is that the use of extrapolation models, particularly linear and non-linear ones as employed by Toronto Hydro, effectively assumes that future trends will mirror those observed in the past. However, Toronto Hydro is forecasting that over the period 2013-2019 the population in its service area will grow at 0.54% / annum which is more than twice the 0.21% growth rate experienced over the 2009-2013 timeframe[63]. Furthermore, unemployment in its service area averaged 9% over the 2009-2013 period whereas for the forecast period the average id 7.7%[64].

- Residential and CSMUR Customer Count

Toronto Hydro has acknowledged that population is one of the drivers behind the growth in the number of residential units[65]. Over the 2009-2013 historic period documented by Toronto Hydro the growth in total residential units (Standard Residential plus CSMUR) was 1.3%, roughly 6.2 times the observed growth rate in population[66]. However, when the extrapolation based forecast for standard Residential customers is combined with its internal forecasts for future CSMUR customers, Toronto Hydro's future growth rate for total residential units is 1.75% which results in a ratio of residential unit growth to population growth of 3.2 –close to one-half the historical relationship[67].

While acknowledging that there is a relationship between population and customer numbers, Toronto Hydro has suggested there are a number of reasons why the relationship could change. The first was that household formation as well as population is another key driver[68]. However, Toronto Hydro does not use household formation as an input into its residential count forecast. As a result, this is does not explain the

[63] Transcript Volume 8, pages 55-57
[64] Exhibit 3/Tab 1/Schedule 1, Modelling Data Input_20140731 – Excel File
[65] Transcript Volume 8, page 54
[66] Transcript Volume 8, page 56
[67] Transcript Volume 8, page 57
[68] Transcript Volume 8, pages 54-55

marked change from the historical relationship observed between population growth and residential customer growth.

The second reason is that some of the residential customers coming on stream during the forecast period will be in CSMUR buildings not served by Toronto Hydro and therefore not captured in its total Residential customers forecasted by Toronto Hydro[69]. However, VECC observes that this has also been the case historically such that the 2013 total residential customers reported by Toronto Hydro will exclude the CSMUR customers serviced by other in-suite meter providers. Furthermore, given the significant growth that Toronto Hydro is forecasting for its CSMUR class it is hard to see how its share of this sector's total customers could be anything but increasing.

The third reason was that Toronto Hydro's forecast models don't use population as one of the drivers and so one would not expect to see a relationship between population growth and residential customer count growth. Toronto Hydro then goes on to note that it has used the current approach for a number of years and has forecast the customer count "quite well"[70]. In this regard, it is VECC's view that just because its trend/extrapolation methods have worked in the past, this is no assurance they will work for forecasting the future, particularly now when there is a marked change in the growth rate for one of the key drivers (i.e. population) underlying the growth in residential customers. Indeed, the fact that Toronto Hydro relies on a simple trend/extrapolation model (that does not reflect key drivers such as population or household formation) to forecast residential customer count is the source of the problem to begin with.

As a result, VECC submits that there is a need for an upward adjustment to Toronto Hydro's residential customer count forecast. Even if one were to conservatively use a ratio of customer growth to population growth of 4.7 which is mid-way between the 6.2 observed on an historical basis and the 3.2 implicit in the Toronto Hydro forecast the resulting total Residential growth rate would be 2.54% / annum[71] as opposed to 1.75%. Applying this growth rate to the total Residential customer count for 2013[72] yields a

[69] Transcript Volume 8, page 58
[70] Transcript Volume 8, pages 57-58
[71] 4.7 * 0.54% = 2.538%
[72] Total 2013 Residential and CSMUR customers are 642,506

2019 total Residential customer count of 746,769, which is 33,731 (or just less than 5%) higher than Toronto Hydro's forecast of 713,028. Furthermore, given the Toronto Hydro's aggressive CSMUR customer forecast, VECC submits that it is reasonable to consider all of these additional customers to be standard Residential customers, resulting in a standard Residential customer count forecast for 2019 of 654,063[73]. The forecast number of standard Residential customer for the intervening years 2015-2018 can then be determined by applying the average annual growth rate implicit in the customer count change from 2013 to 2019.

- GS and Larger User

In the case of the customer classes representing commercial and industrial customers (as well as CSMUR buildings served by other suite-metering providers) the forecasted growth rate is even more problematic. Over the 2009-2013 the total number of customers in these classes grew by 0.6% / annum. In contrast, for the forecast period the average annual growth rate is 0.44% / annum which is actually lower[74]. However, at the same time, as discussed above, the population growth rate for the forecast period is actually higher than it was during the historical period covered by Toronto Hydro's data. Toronto Hydro claims that the linkage between population and customer count is more tenuous than for the Residential class[75]. However, VECC submits that there will be some correlation particularly between population and GS customers that provide commercial services or institutional services to the residential sector. Furthermore, if one looks at the monthly unemployment rates used in the volumetric forecast models for these customer classes, the average over the 2009-2013 period is 9% whereas for the forecast period (2015-2019) the average is 7.7%[76]. Thus, with higher population growth and lower unemployment levels than experienced historically one would expect to see a higher growth for commercial/industrial customers over the forecast period than was experienced historically. However, Toronto Hydro's forecast shows exactly the opposite.

[73] 620,322+33,731=654,063
[74] Transcript Volume 8, pages 61-62
[75] Transcript Volume 8, page 62
[76] Exhibit 3/Tab 1/Schedule 1, Modelling Data Input_20140731 – Excel File

In explaining the difference between its historic and forecast growth rate in this area, Toronto Hydro notes that the number of customers added over the historic period roughly equals the number of customers added over forecast period suggesting the forecast is "in line" with history and therefore appropriate[77]. There are two problems with this line of reasoning. First the historic period only covered four year whereas the forecast period covers six, such that one cannot simply compare the number of customer additions in each when assessing comparability. The second problem is that, as noted above, the two periods are not similar in that both the population growth rate and the unemployment rates in the forecast period are both more favourable (towards commercial/industrial customer growth) than in the historic period.

VECC submits that there is also a need for an upward adjustment to the number of customers in the rate classes representing the commercial/industrial sector. Again, taking even a conservative approach and assuming that the annual customer growth rate in the future is equal to that of the past four years would mean the overall customer count for these classes grows from 80,765 in 2013 to 83,717 in 2019 as compare to the 82,939[78] that Toronto Hydro forecasts. In terms of the increases for individual rate classes, a reasonable approach would be to assign the increase to the three GS classes in proportion to the 2013 customer count by class which results in increases for 2019 of 658 for GS<50 customers; 115 for GS 50-999 customers and 5 for GS 1000-4999 customers. Again, the revised forecast number of customer in each these classes for the intervening years 2015-2018 can then be determined by applying the average annual growth rate implicit in the customer count change from 2013 to 2019.

Overall, VECC submits that the adjustments proposed are conservative and the minimum needed to recognize the change in underlying conditions (e.g. population growth and unemployment) that are forecast for the test years 2015-2019.

[77] Transcript Volume 8, page 62
[78] Exhibit K8.1, page 4

6.1.2 Proposed Volumetric Forecast (pre-CDM adjustments)

Toronto Hydro's Proposal

In order to forecast energy use, Toronto Hydro has developed individual regression models for each of its rate classes. The models incorporate economic, demographic, calendar and weather variables that are statistically significant in explaining the energy use by rate class[79]. The one exception is the CSMUR class which was only established in 2013. For this class a Normal Average Use per Customer (NAC) approach was used based on weather normalized 2012 data[80].

In Toronto Hydro's approach to load forecasting the impact of CDM programs is captured by i) adding the gross impact of past CDM programs back into the historical data used to estimate its load forecast models; ii) using these models to forecast future energy use (prior to any CDM reduction); and then iii) deducting the cumulative forecast gross impact of CDM programs in order to derive the energy load forecast (net of CDM) to be used in the Application[81].

For those classes that are billed on a kW basis, forecast energy (prior to removing CDM) was converted to billing kW using the historic relationship between energy and billing demand and then the impacts of CDM were removed[82]. The impacts of CDM on billing demand were based on observed relationship between demand and energy savings for historic CDM programs[83].

VECC's Submissions

VECC's only material concern with Toronto Hydro's approach to forecasting delivered energy volumes during the forecast period is its treatment of CDM. For purposes of developing its forecast models for the Residential, GS<50, GS 50-999, GS 1000-4999 and Large User classes, Toronto Hydro has added back the gross impacts of CDM programs, which includes free riders, as opposed to adding back the net impacts of

[79] Exhibit 3/Tab 1/Schedule 1, pages 3-9
[80] Exhibit 3/Tab 1/Schedule 1, page 10
[81] Exhibit 3/Tab 1/Schedule 1, page 3
[82] 3-VECC 28 c)
[83] 3-VECC 28 d)

CDM with free riders removed[84]. When asked why the gross as opposed to net impacts of CDM were "added back" Toronto Hydro indicated it was because the gross impacts represent the real impacts of CDM[85].

In response to VECC-22 Toronto Hydro has provided the regression models and forecast results for 2015-2019 that would result from "adding back" the historical net CDM for purposes of modelling and then removing the forecast net CDM impacts from the load forecast produced by the models, for those rate classes where CDM has/is assumed to occur. The following table contrasts the impact on the total load forecast for each year of using net versus gross CDM. VECC notes that while the differences seem small in percentage terms the impact on Toronto Hydro's revenues at current rates is in excess of its $1,000,000 materiality threshold[86].

TOTAL LOAD FORECAST (GWh) USING NET VERSUS GROSS CDM-BASED MODELS					
	2015	**2016**	**2017**	**2018**	**2019**
GROSS CDM BASED MODELS[1]	24,128.2	24,161.2	23,982.1	23,842.5	23,760.1
NET CDM BASED MODELS[2]	24,327.4	24,359.1	24,205.4	24,093.0	24,005.3
Sources: 1) THESL Forecast – Exhibit 3/Tab 1/Schedule 1, Appendix B-1, Table 1 2) 3-VECC-22 g) Data File, 2015-2019 Load Forecast Tab					

In VECC's view, the appropriate models to use for purposes of forecasting energy volumes for these five customer classes are those that incorporate a net CDM adjustment. The reasons for this are four-fold:

- First, as Toronto Hydro has acknowledged[87], for four out of the five rate classes the net CDM-based models are superior to the models it has developed using a gross CDM-based adjustment in terms of the statistics that Toronto Hydro used to assess the goodness of fit in its model development.

[84] Transcript Volume 8, page 63
[85] 3-VECC-22 e)
[86]
[87] Transcript Volume 8, pages 69-70

- Second, in response to Toronto Hydro's claim that the gross CDM values represent the real impact of CDM, VECC submits that it is important to distinguish between CDM that will occur in any event (what Toronto Hydro refers[88] to as "natural conservation") and CDM that occurs as a result of specific programs implemented by parties such as Toronto Hydro. Toronto Hydro readily admits[89] that its modelling approach does not pick up and include (natural occurring) CDM in those areas for energy efficiency improvement where there are no CDM programs. Since free-riders represent those customers who would have undertaken the conservation initiative even without the program they too are, in Toronto Hydro terminology, "natural conservators". To VECC, it is inconsistent to include naturally occurring CDM in areas where there are CDM programs, where it is not included in other areas where no CDM programs exist.
- Third, Toronto Hydro acknowledged that there are other Ontario distributors that add CDM back into their historical load for purposes of developing their load forecast models. However, it was unable to name any utilities who do so on using gross CDM[90]. As the Board is aware, VECC actively participates in the OEB's review of individual Ontario distributors cost of service-based rate applications and can advise the Board that it has been able to find no precedent that it is aware of for using the gross CDM-based approach proposed by Toronto Hydro.
- Fourth, using gross CDM in the development of the load forecast models requires a forecast of gross CDM in order to "remove" the impact of CDM from the forecast[91]. However, the approach that is used by Toronto Hydro and virtually all other Ontario distributors is to base their forecast of future CDM achievements on the targets set for them by the OPA (now IESO)[92]. By definition these targets are net CDM values. In order to determine the "gross equivalent", Toronto Hydro converted its anticipated net CDM savings for 2014-2019 to gross value using net to gross ratios derived from its 2013 verified results[93]. However, it is likely and, indeed a certainty, that the net to

[88] Transcript Volume 8, page 66
[89] Transcript Volume 8, page 67
[90] Transcript Volume 8, pages 63-64
[91] Exhibit 3/Tab 1/Schedule 1, page 11
[92] Exhibit 3/Tab 1/Schedule 1, page 11
[93] 3-VECC-29

gross adjustments for 2014-2019 will be different than those for 2013. The use of a net CDM for purposes of load forecasting would remove this additional degree of uncertainty.

As a result, VECC submits that the Board should direct Toronto Hydro to adopt the energy volume forecast as set out in response to VECC #22 g) for purposes of its 2015-2019 rates.

The response to VECC 22 g) also provides the forecast kW values for those customer classes that are billed on a demand basis. It is noted that, contrary to what one would expect, not all classes where the net CDM-based model produced a higher energy forecast also show a resulting higher billed demand forecast than was obtained using the gross CDM-based model. For example the 2015 energy forecast for the Large User class increases from 2,228.4 GWh to 2,236.2 GWh. However, the billing demand forecast declines from 5,305.0 MW to 5,272.6 MW. Toronto Hydro may wish to address this anomaly in its reply argument.

6.1.3 Proposed CDM Adjustments

Toronto Hydro's Proposal

As noted in the preceding section, Toronto Hydro's approach is to forecast future delivered energy and billing demand prior to any CDM adjustments, including those adjustments related to CDM programs that were implemented over the historic period used to develop its load forecast models. As a result, it is necessary for Toronto Hydro to remove the cumulative effect in each of the forecast years for the persisting impact of CDM programs that were implemented historically as well as forecast impact of new CDM programs that will be implemented in the forecast years.

For historical CDM programs that were implemented over the 2006-2013 period Toronto Hydro has relied on the results reported by the OPA[94]. For the 2014-2019 forecast period Toronto Hydro has assumed that it will meet the CDM targets that have been set for it by the OPA/IESO[95]. In assigning both the annual reported savings achieved to date and the forecast CDM savings to calendar years, Toronto Hydro has recognized

[94] 3-VECC-22 c)
[95] Exhibit 3/Tab 1/Schedule 1,page 11

that both the OPA/IESO reported results and its targets are “annualized” values and prorated them over the calendar based on the completion timing of the various CDM projects[96].

Also, as noted in the preceding section, the impacts of CDM on billing demand were based on the observed relationship between demand and energy savings for historic CDM programs[97].

VECC’s Submissions

VECC has no issues with the Toronto Hydro’s general approach to adjusting for CDM other than the concerns already noted regarding i) the use of gross and opposed to net CDM in both its initial forecasting methodology and subsequent CDM adjustments and ii) the seeming inconsistencies between the net and gross based results for some demand billed classes.

6.1.4 Proposed LRAMVA Values

Toronto Hydro’s Proposal

In response to 3-VECC-32 c) Toronto Hydro provided the CDM impacts (energy and billing demand by class as appropriate) that it has included in the its 2015-2019 load forecast which would form the basis for any future LRAMVA application made concerning those years[98]. The values are based on the impacts of CDM programs implemented in 2015-2019[99].

VECC’s Submissions

According to the Board’s Conservation and Demand Management Guidelines for Electricity Distributors (EB-2014-0278) issued December 2014 the LRAM mechanism “consists of the mandatory use of an LRAM variance account (“LRAMVA”) to track both the amounts included in a distributor’s load forecast for conservation and the final, verified savings of the distributor’s conservation programs”[100]. The purpose of the

[96] 3-VECC 22 d)
[97] 3-VECC 28 d)
[98] Additional details were also provided in TC J2.28-VECC-74
[99] Transcript Volume 8, page 71
[100] Page 9

account is to permit electricity distributors to recover any lost revenue that occur as a result of actual CDM results exceeding those accounted for in the load forecast used for rate setting purposes and, thereby, avoid the occurrence of such "lost revenues" being a disincentive to distributors participating in CDM activities. At the same time the LRAMVA is symmetrical so as to ensure that the distributor does not benefit to the detriment of ratepayers if actual lost revenues are less than the forecasted amount that has been approved by the Board.

Toronto Hydro's actual LRAMVA calculation and application for the 2015-2019 period will not be made until after the actual CDM results are known for some if not all of the years involved. However, it is for precisely this reason that VECC believes it is important to clearly establish as part of this application process the CDM values that are included in the load forecasts for 2015-2019 against which any future true-up will occur. Clarifying and clearly documenting these values now as well as the basis on which they were determined can only serve to facilitate any future application to clear the LRAM Variance Account as it will eliminate future debate as to the forecast values that should be input in to the calculation and what program years' results they should be compared against.

Toronto Hydro has acknowledged that its current 2015-2019 load forecast uses actual CDM results for the period up to 2013 and then forecast results for programs implemented in the years after that[101]. As a result, VECC submits that there is no need for any future LRAM calculation for 2015-2019 to consider the years up to and including 2013.

However, for the years 2014-2019 the load forecast uses forecasts of both the expected first year results and the subsequent persisting results for CDM programs implemented in those years. As a result, there is a need to capture in the LRAMVA calculations the forecast CDM results for programs implemented in all of these years, including 2014. In this way both Toronto Hydro and ratepayers will be held "harmless" for any differences that arise between the currently forecasted impact of 2014 CDM programs in 2015-2019 and the effect that the programs actually implemented in 2014 will have in those years.

[101] Transcript Volume 8, page 72

In response to Undertaking J8.6, Toronto Hydro has provided the CDM impacts it is currently projecting for 2015-2019 from CDM programs implemented in 2014 as well as over the years 2015-2019. VECC submits that it is these values that should be used to calculate the LRAMVA amounts for refund to/recovery from ratepayers in any future LRAM calculation/application for 2015-2019. Furthermore, consistent with Board policy, it is the net CDM savings as set out in Table 1 of the response that should be used in the calculations.

6.2 Are the rate classes and their definitions proposed by Toronto Hydro appropriate?

Toronto Hydro's Proposal

Toronto Hydro is not proposing any changes to its current rate classes or their definitions[102].

VECC's Submissions

VECC has no issues with Toronto Hydro continuing to use it's currently approved rate classes.

6.3 Are the inputs to the cost allocation model appropriate?

Toronto Hydro's Proposal

Toronto Hydro has used the Board's Cost Allocation Model and, in accordance with the Board's directives, has reviewed the default allocators for Billing & Collections and Services[103]. However, there are a couple of areas where Toronto Hydro is proposing changes to the model that are unique to its circumstances.

The first is with respect to the minimum system default values provided in the Board's model. Toronto Hydro notes that its customer density is well above (i.e., more than double) the 60 customer per kilometer used as the cut-off in the Board's model to define the "high density" distributors. Since Toronto Hydro was one of the distributors whose

[102] Exhibit 8/Tab 2/Schedule 2
[103] Exhibit 7/Tab 1/Schedule 1, pages 1-2

historic cost allocation studies were used to inform the development of the Board's minimum system default values, Toronto Hydro is proposing to use the demand/customer split from this earlier study in the Cost Allocation model for this Application[104].

Second, Toronto Hydro has altered the Board's cost allocation model in order to incorporate the CSMUR class that the Board's EB-2010-0142 Decision directed be introduced. Also, in accordance with the Board's Decision, Toronto Hydro has reviewed its revisions to the Cost Allocation model and determined that they properly incorporate the Board's findings in EB-2010-0142 with respect to the CSMUR class[105].

Third, in order to reflect the transfer of certain Street Lighting assets to Toronto Hydro, various changes have been made to the cost allocation to ensure the related costs are assigned to the Street Lighting class and the USL class (which also uses some of the same assets). Similarly, the revenues associated with the asset transfer were also directly allocated to the Street Lighting class[106].

VECC's Submissions

VECC takes no issue with the adjustments Toronto Hydro has made to the cost allocation model for purposes of the current Application or the inputs used. However, VECC does have submissions regarding the future use of the model both by Toronto Hydro and, in general, by the OEB and other distributors.

As noted, Toronto Hydro has chosen to use the minimum system values from an earlier cost allocation study performed specifically for Toronto Hydro as opposed to the default values in the Board's model. VECC notes that the Toronto Hydro study was completed in 1999[107] and is now over 15 years old. VECC submits that, for its next cost of service based application, Toronto Hydro should be directed to undertake a new minimum study that would reflect its current circumstances if it proposes to depart from the Board's default values at that time.

[104] Exhibit 7/Tab 1/Schedule 1, pages 3-5
[105] 7-VECC-52 a)
[106] Exhibit 7/Tab 1/Schedule 1, page 6 and Exhibit 2A/Tab 5/Schedule 1, pages 24-25
[107] 7-VECC-51 a)

In its EB-2010-0142 Decision the Board noted concerns expressed by the SSMWG regarding the determination of the cost allocation model's composite allocators based on: i) Net Fixed Assets and ii) Total OM&A Costs, in terms of their treatment of directly allocated assets and expenses[108]. Toronto Hydro notes in its response to VECC 52 b) that this component of the Board's cost allocation model has not been altered[109]. VECC submits that the Board should undertake to correct this aspect of its Cost Allocation model prior its release for use by distributors filing their 2016 cost of service based rate applications.

6.4 Are the proposed revenue-to-cost ratios for all rate classes appropriate?

Toronto Hydro's Proposal

The following table sets out the 2015 status quo revenue to cost ratios produced by the Cost Allocation using Toronto Hydro's most recent revenue requirement update and Toronto Hydro's proposed ratios for 2015[110].

Class	Previously Approved Ratios Most Recent Year: 2011	Status Quo Ratios (7C + 7E) / (7A)	Proposed Ratios (7D + 7E) / (7A)	Policy Range
	%	%	%	%
Residential	89%	94	94	85 - 115
GS < 50 kW	97%	90	92	80 - 120
GS 50-999 kW	118%	119	119	80 - 120
GS 1000-4999 kW	124%	102	102	80 - 120
Large User	116%	95	96	85 - 115
Street Lighting	71%	92	82	70 - 120
Unmetered Scattered Load (USL)	82%	87	89	80 - 120
Competitive Sector Multi-Unit Residential (New Rate Class in 2013)		110	100	85-115
Embedded distributor class				

Toronto Hydro's proposal involves[111]: i) reducing the revenue to cost ratio for CSMUR to 100%, as directed by the Board in EB-2010-0142; ii) maintaining the Street Lighting rates at their 2014 level, then setting the revenue to cost ratio accordingly; and iii)

[108] 7-VECC-52 b)
[109] See also 7-VECC-53 j)
[110] Exhibit 7/Tab 2/Schedule 1, page 3
[111] Transcript Volume 8, pages 76-77

increasing the revenue to cost ratios for all of the remaining customer classes whose ratios are below 100% in order to maintain revenue neutrality. The actual allocation of the shortfall to the customer classes is based on the relative revenue shortfall (versus a 100% revenue to cost ratio) for each of the customer classes[112].

Toronto Hydro's rationale for maintaining the Street Lighting rates at 2014 levels is that "the Board is still looking into one of the components, one the important components of the cost allocation model when it comes to street lighting[113]". Toronto Hydro also notes that the proposed revenue to cost ratio for street lighting is within the Board's policy range.

VECC's Submissions

VECC's only material concern with Toronto Hydro's proposed revenue to cost ratios is with respect to its proposal for the Street Lighting class. VECC's concern is that the proposal is counter to the Board's policy on at least three fronts and leads to bill impacts for the Street Lighting class that are inappropriate when compared to those of other classes.

Toronto Hydro's proposal results in the revenue to cost ratio for Street Lighting moving from 92% to 82%, which represents a significant shift away from 100%. In its EB-2007-0668 Report dealing with cost allocation for electricity distributors the Board explicitly stated that "distributors should not move their revenue-to-cost ratio further away from 1"[114]. During the oral proceeding Toronto Hydro suggested that this policy had been modified and undertook to provide any Board Decisions that qualified or modified the statement in the EB-2007-0667 Report. In its undertaking response[115] Toronto Hydro referred to other sections of the EB-2007-0667 Report and four Decisions subsequently issued by the Board:

VECC has reviewed the additional sections of the EB-2007-0667 Report noted by Toronto Hydro and submits that they do not qualify or modify the Board's direction, in

[112] 7-VECC-55 a)
[113] Transcript Volume 8, page 35
[114] Page 7
[115] J8.8

the same Report, that revenue to cost ratios should not move away from 100%. Rather the cited (and highlighted) passages indicate that caution and recognition that the cost allocation model is not perfect is required such that moving a specific revenue to cost ratio that is closer to or setting it at 100% may not be appropriate.

Toronto Hydro also suggests that its proposal regarding Street Lighting is appropriate because the proposed ratio in closer to one than the ratio approved by the Board for 2011[116]. However, it is clear from the Board's most recently issued Chapter 2 Filing Requirements[117], that the starting point for considering any adjustments is the status quo ratio from the current cost allocation and not the value approved by the Board in a previous proceeding.

Of the Decisions cited by Toronto Hydro only the one dealing with Espanola represents a specific determination by the Board as opposed to a decision regarding a proposed Settlement Agreement. VECC notes that in that Decision the movement away from 100% was fairly small: two percentage points in the case of the GS<50 class and 0.6 percentage points in the case of the USL class. Furthermore, VECC should note that contrary to the suggestion in the Decision, VECC did not agree with Espanola's proposal but rather with the methodology that Espanola had originally proposed for determining which customer class' ratios were to be adjusted and by how much. The problem was that the status quo ratios were updated in response to a supplemental round of interrogatories but Espanola's "proposal" was not updated accordingly using this methodology.

As noted the other three Decisions all involved Settlement Agreement and there, as the Board typically notes in each such Decision "since settlements are the result of negotiations on numerous interconnected and sometimes complex issues, the terms of a settled issue may not necessarily be accepted by the Board in other proceedings"[118].

However, having noted this, VECC would like to point out that contrary to Toronto Hydro suggestion the Orangeville (EB-2013-0160) Settlement Agreement did not result in the

[116] Transcript Volume 8, page 35
[117] Page 52, 1st paragraph
[118] Orangeville, EB-2013-0160, page 3

revenue to cost ratios moving further from one. Indeed, it clearly states in the extract provided by Toronto Hydro in Appendix B that "Orangeville Hydro is not proposing any adjustments to the revenue-to-cost ratios resulting from the cost allocation methodology". Furthermore, for the other two Decisions cited the movement away from 100% is fairly minor if not a result of rounding (e.g. 0.07 percentage points in the case of London).

Overall, VECC submits that none of the references Toronto Hydro has provided support the significant shift (ten percentage point) shift away from 100% that Toronto Hydro is proposing for its Street Lighting class.

Toronto Hydro's main justification for its proposal regarding the revenue to cost ratio for Street Lighting is on the basis that the cost allocation for Street Lighting is currently under review[119]. However, in recent correspondence in reply to a request from intevenors[120] seeking relief from the current working capital allowance criteria, the Board responded that "the Board's practice to date has been to apply any changes to policies prospectively. Therefore, the existing policy will remain in effect until the completion of the policy review on WCA[121]. As a result, VECC submits the fact that the cost allocation for Street Lighting is currently under review is no justification for not following the Board's current policy with respect to the setting of revenue to cost ratios.

Also supporting this position is the recent Board Decision regarding Hydro One Networks' 2015-2019 Distribution Rate Application (EB-2013-0416/EB-2014-0247). In that proceeding, the City of Hamilton had asked the OEB "to include in its decision a provision for re-opening of Hydro One's application if there are changes to OEB policies that affect the costs and revenues allocated to the street lighting customer class"[122]. The Board denied this request. VECC considers the Toronto Hydro's proposal to be an extreme variant of the City of Hamilton request in that it seeks to freeze street lighting rates as current levels pending the outcome of the Board's policy view and submits, that like the City of Hamilton proposal, it should be rejected.

[119] Transcript Volume 8, page 77
[120] EB-2014-0083, Exhibit k1.3, Tab 7
[121] Exhibit K8.1, page 43
[122] EB-2013-0416/EB-2014-o247 Decision, page 49

Finally, while all other rate classes will experience total bill increases (up to 6.1% in the case of USL), Toronto Hydro's proposal to freeze Street Lighting rates at 2014 levels results in a total bill decrease for this class of 4.1% for 2015[123]. Thus, not only is there no "policy" supporting Toronto Hydro's proposal but it results in a significant difference in the bill impacts for Street Lighting versus all the other rate classes which cannot be justified in to these other rate classes.

Overall, VECC submits that the Street Lighting class should be treated the same as all other rate classes whose status quo revenue-to-cost ratio is below 100% and portion of the revenue deficiency from the adjustment to the CSMUR's ratio be allocated to it as well. VECC notes that this will likely result in an increase in from the current 92% status quo ratio for the class of roughly 0.5 percentage points.

6.5 Are the proposed fixed and variable charges for all rate classes appropriate?

Toronto Hydro's Proposal

Toronto Hydro's proposal is to maintain the current (2014) fixed-variable split for all rate classes for all years covered by the Application[124].

As part of its Application, Toronto Hydro Is also requesting that its past Standby rates, which have been approved on an interim basis since 2005, be declared final but that the proposed 2015 Standby rates only be approved on an interim basis[125].

VECC's Submissions

In its Application Toronto Hydro has acknowledged that the monthly charges resulting from maintaining the current fixed-variable split exceed the maximum values calculated by the Cost Allocation model for the Residential, CSMUR, GS 1000-4999 and Large User classes. Furthermore, it notes that while the monthly charges for the GS 1000-

[123] Exhibit 8/Tab 1/Schedule 1,page 2
[124] Exhibit 8/Tab 1/Schedule 1, page 5
[125] Exhibit 8/Tab 1/Schedule 1, pages 7-8

4999 and Large User classes have historically been above the ceiling, this application is the first time this result has occurred for the Residential class[126].

In its EB-2007-0667 Report on Cost Allocation the Board concluded that it "does not expect distributors to make changes to the MSC that result in a charge that is greater than the ceiling as defined in the Methodology for the MSC"[127]. More recently in its EB-2010-0142 Decision regarding Toronto Hydro's Suite Metering Issues, the Board noted that the Cost Allocation model calculated a range of values for the monthly service charge and that it considered "these calculated values to be useful reference points for the design of the Monthly Service Charge for the respective customer classes"[128]. Furthermore, in that same Decision, it directed that the monthly charge for the CSMUR class be set at the mid-point of the range[129].

Finally, VECC notes that using the existing fixed-variable split results in a wider range of bill impacts[130] for the Residential class then would be the case if the increase in the monthly charge was limited to the ceiling value as calculated by the Cost Allocation model of $19.34 as opposed to being increased to the proposed $22.72 value[131].

Based on the foregoing, VECC submits that, for the Residential class, the Board should limit the increase in the monthly fixed charge to a value that is no greater than the ceiling value calculated by the Cost Allocation model. Such an approach would not only be consistent with Board policy but it would also reduce the range of bill impacts to be experienced by Residential customers.

In the case of the CSMUR class, if the Board were to adopt the same approach as it did in EB-2010-0142 monthly charge would be $6.36. This represents a significant drop from the current monthly charge of $17.34 as changes in inputs to the Cost Allocation model have impacted the calculation of the upper and lower range values for this class[132]. Since the current monthly charge for this class currently exceeds the ceiling

[126] Exhibit 8/Tab 1/Schedule 1, page 6
[127] Page 12
[128] Page 23
[129] Page 27
[130] Transcript Volume 8, page 84
[131] Exhibit 8/Tab 1/Schedule 1, page 6
[132] Exhibit 8/ab 1/Schedule 1, page 6

value calculated by the Cost Allocation model, VECC submits that the 2015 CSMUR monthly charge should be set at the 2014 value.

With respect to Toronto Hydro's request that its previous Standby rates all be declared final, VECC submits that the Board should deny this request. Currently, as result of the Board's EB-2005-0529 Decision all distributors' existing and proposed Standby rates are interim pending further review of the issues associated with Standby rates. Toronto Hydro expresses concern about the period of time that has passed and the potential for retro-activity. These concerns are common to all distributors with Standby rates. As Toronto Hydro notes the subsequent review of Standby rates is still ongoing and there is no reason why Toronto Hydro's Standby rates should be given special treatment and declared as final at this point.

6.6 Are the proposed charges for specific and miscellaneous services appropriate?

Toronto Hydro's Proposal

Toronto Hydro is proposing both new and updated service charges for 2015. There are four new Service Specific Service Charges that Toronto Hydro is proposing[133]:

i. Request for Other Billing or System Information
ii. Account History Charge
iii. Service Call – Customer Owned Equipment or Customer Missed Appointments
iv. Temporary Service Install & Remove (overhead – with transformer)

Toronto Hydro indicates that all of these new charges are contained in the 2006 Distribution Rate Handbook but are ones that it currently does not apply.

Toronto Hydro is also updating its existing specific service charges to reflect its current costs. For all but three of these charges, Toronto Hydro has used the standard formula methodology set out in the 2006 Distribution Rate Handbook[134]. The three exceptions are:

[133] Exhibit 8A/Tab 2/Schedule 1, pages 3-4
[134] Exhibit 8A/Tab 1/Schedule 1, pages 5-7

i. Account Set-Up Charge – where advancements in technology mean that the time estimates incorporated in the standard formula are no longer accurate and more realistic values result in a lower charge.
ii. Temporary Service Install & Removal – where the rate is calculated based on Toronto Hydro's own specific costs.
iii. Specific Charge for Access to Power Poles (Wireline Attachments) – where the rate is based on the model and principles used to determine the standard province-wide rate in the 2003 CCTA hearing, but updated for current day costs.

VECC's Submissions

The Board has established a separate process to consider Toronto Hydro's proposed Specific Charge for Access to Power Poles. As result, the following submissions do not address this specific proposal.

VECC notes that Toronto Hydro only proposes to charge customers for any formal account history requests that would involve extensive data gathering or which require summarizing the data for the customers' end use. VECC also notes that customers; account history is available free of charge through Toronto Hydro's customer web portal[135]. Provided this practice continues, VECC's only real concern is with the proposed new charge: Service Call – Customer Owned Equipment or Customer Missed Appointments. VECC notes that currently service calls for customer owned equipment are charged out based on actual costs[136]. As a result, VECC has no problem with the proposal to standardize the charge for service calls related to customer owned equipment using actual costs.

VECC's concern is with the extension of the charge to cover customer missed appointments. VECC notes that the 2006 Distribution Handbook did not envision applying this charge to customer missed appointments and, indeed, did not include any charge for customer missed appointments. VECC recognizes that there is a cost to Toronto Hydro for customer missed appointments. However, there are equally costs

[135] 8-VECC-63
[136] Exhibit 8A/Tab 1/Schedule 1, Table 1, Footnote #2

(both opportunity cost and real costs) incurred by ratepayers in making themselves available to meet with Toronto Hydro at pre-set appointment times.

Toronto Hydro has indicated that it does not compensate customers for appointments that it misses nor is it proposing to do so[137]. On this basis and given the new customer focus of the Board's Renewed Regulatory Framework for Electricity VECC submits that it is inappropriate to charge customers for missed appointments – particularly the first time. In VECC's view there should be no charge for missed appointments unless Toronto Hydro is required to reciprocate and provide equivalent compensation when it misses an appointment (without reasonable notice prior to the time of the appointment). At most, if such a charge is to be applied (without reciprocal compensation available from Toronto Hydro) it should be applied to customers only after an appointment has been missed once and, then, only if the subsequent (missed) appointment is with regard to the same matter.

6.7 Are the proposed line losses appropriate?

Toronto Hydro's Proposal

Toronto Hydro is proposing that it currently approved loss factors be continued until work that is currently underway to address recent findings by the OEB's Audit Staff with respect to its calculation of the balances in Account 1855 – RSVA Power is completed. Toronto Hydro also notes that this work is relevant to the undertaking it gave in the EB-2012-0064 Settlement Agreement to evaluate options to measure or estimate actual line losses and the impacts on Account 1588 balances in accordance with the Accounting Procedures Handbook[138]. Toronto Hydro expects this work to be completed in time to bring any bring forward a necessary proposals to incorporate revised loss factors into distribution rates at or before the rate order for 2016 distribution rates (e.g., January 1, 2016).

[137] 8-VECC-64
[138] Exhibit /Tab 5/Schedule 1, page 1

VECC's Submissions

VECC recognizes the work Toronto Hydro is currently undertaking must be completed before the undertaking given in the EB-2012-0064 Settlement Agreement can be addressed and/or revised loss factors be determined. As a result, VECC has no concerns regarding Toronto Hydro's proposal with respect to the loss factors to be used for 2015 rates. However, VECC submits that as well as addressing the findings of the OEB Audit Staff Toronto Hydro has a separate (but related) obligation to address the undertaking given in the Settlement Agreement. VECC is concerned that addressing this undertaking not be delayed until Toronto Hydro's next cost of service-based Application. VECC submits that the Board should hold Toronto Hydro to its commitment to address both of these matters as part of its application for 2016 rates.

7. RATE IMPLEMENTATION

7.1 Is Toronto Hydro's proposal to implement rate and fiscal year synchronization effective January 1, 2016 appropriate?

VECC supports the proposal of Toronto Hydro to move align its fiscal and rate years

8. CONCULSION

VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an award of costs in the amount of 100% of its reasonably-incurred fees and disbursements

All of which is respectfully submitted this 3rd day of April 2015