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By Email and RESS

April 2, 2015

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

Re: Toronto Hydro-Electric System Limited ("THESL") Distribution Rates 2015-2019 (EB-2014-0116) - SIA Final Argument

Dear Ms. Walli,

Attached please find the Final Argument of the Sustainable Infrastructure Alliance of Ontario (the “SIA”) in the above noted proceeding.

Sincerely,

[original signed by]

Dionisio Rivera

EB-2014-0116

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

AND IN THE MATTER OF an application by Toronto Hydro-Electric System Limited for an order approving just and reasonable rates and other charges for electricity distribution to be effective May 1, 2015 and for each following year effective January 1 through to December 31, 2019.

Final Argument on behalf of the Sustainable Infrastructure Alliance of Ontario

April 2, 2015

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1.0 General

1.1 Proceeding Overview

On July 31, 2014, Toronto Hydro-Electric System Limited ("THESL") filed an application with the Ontario Energy Board (the "Board") for an order approving distribution rates for a five year period, commencing May 1, 2015. The proceeding included a pre-hearing presentation, extensive interrogatories, a technical conference, an issues conference, an ADR, and an oral hearing.

These are the submissions of the Sustainable Infrastructure Alliance of Ontario (the "SIA"). For ease of reference, the submissions address the issues before the Board under main topic headings, rather than by individual issue.

2.0 Rate Framework

2.1 Overview and Compliance with RRFE

THESL filed its application for rates under the Board's Renewed Regulatory Framework for Electricity Distributors ("RRFE"), under the "Custom IR" rate-setting option. THESL's custom approach to rates is based on several elements, some unique and some adopted from the standard IRM rate-setting method. At its base, THESL has adopted the Board's PCI IRM methodology, including productivity and stretch factors for 2016-2019 (that would apply to THESL's OM&A expenditures). It has then augmented the standard formula with an additional "Cn factor" to account for increased capital expenditures on a full cost recovery basis.[1] THESL has also filed productivity and benchmarking evidence, a customer engagement report, a series of proposed annual reporting metrics, and detailed evidence, including a comprehensive Distribution System Plan ("DSP"), presented in general conformance with the Board's Filing Requirements.[2]

Generally, the SIA is supportive of THESL's interpretation of the RRFE guidelines, and believes its evidence presentation and proposed rate setting methodology largely satisfy the Board's RRFE requirements, and specifically satisfy the particular elements relevant to the CIR rate setting option. The SIA's comments on specific elements of THESL's CIR framework and plan are provided in the sections that follow.

[1] Exhibit 1B, Tab 1, Schedule 3, page 8
[2] Exhibit 1B, Tab 1, Schedule 2, page 1-4

2.2 Benchmarking, Cohort, and Stretch Factor

In the RRFE Report[3], and in subsequent decisions which reference it[4], the Board has emphasized the importance of benchmarking in justifying a utility's proposed costs. In support of its application, both as a justification of reasonability[5] and as a method of determining THESL's cohort and stretch factor[6], THESL presented a comprehensive benchmarking comparison undertaken by Mr. Steven Fenrick of Power Systems Engineering ("PSE"). To analyze the PSE benchmarking report and provide an alternative point of view through a separate report, Board Staff engaged Dr. Larry Kauffman of Pacific Economics Group ("PEG"). Both reports have undergone several rounds of edits and adjustments during the course of this proceeding.

In the final version, the PSE report presents THESL to be an above average performer in the historic period and a projected average performer in the forecast period. The PEG report, by contrast, presents THESL as an average performer in the historic period and a below average performer in the forecast test period. After all adjustments and corrections, the difference between the two evaluations is approximately 25 percentage points by 2019.[7]

Approximately one third of the difference between the two models is the result of data comparability disagreements. The remaining two thirds is attributable to PSE considering differences in the costs of utilities with dense urban cores, with PEG claiming these differences to be statistically insignificant to warrant inclusion in a benchmarking model. On balance, the SIA does not find the position of PEG to be convincing on this issue.

In determining the significance of the urban core variable, PSE found four utilities which met its criteria of serving a city population of one million or more - namely, Chicago, New York, Dallas, and Phoenix.[8] In contrast, PEG used 27 utilities, notionally selected on the basis of containing a professional football or baseball team, with some additional subjective exclusions.[9] While the selection of cities used by PSE is rather limited, the SIA submits that the selection used by PEG in attempting to disprove the significance of the urban core variable is far too inclusive, and provides for urban core status to such small cities as St. Petersburg, Florida (population of approximately 250,000), Cleveland, Ohio (approximately 390,000), Tampa, Florida (approximately 350,000), and St. Louis, Missouri (approximately 320,000).

[3] RRFE Report, page 11, 56
[4] EB-2012-0459 (Enbridge Decision), page 8
[5] Transcript Vol 9, page 24
[6] Transcript Vol 3, page 13
[7] Undertaking J9.2 [PEG = 31.7% above benchmark; PSE = 7% above benchmark]
[8] Transcript Volume 3, page 89
[9] Undertaking J3.2

The SIA believes that the selection of such small cities clearly distorts the purpose of PSE's urban core variable in identifying utilities with similar conditions and costs to those of THESL. If cities of that size could truly be used as comparators to THESL, it would suggest local examples such as Mississauga (population approximately 700,000) and Hamilton (approximately 500,000) would be meaningful and arguable even more appropriate peers, which the SIA believes neither PSE nor PEG is suggesting to be true.

The SIA, however, recognizes that the imprecise nature of benchmarking allows for multiple models and points of interpretation (particularly on data comparability), as evidenced by the conflicting positions of PEG and PSE in this proceeding. As such, the SIA submits that the true performance of THESL likely falls somewhere in between the points of view of PSE (which is inclined to favourably position THESL) and PEG (which, through their role, is inclined to critique the PSE results).

Given the above, the SIA believes it would be reasonable to assign THESL to the fourth cohort, with a stretch factor of 0.45, which is the mid-point between the PSE suggested third cohort of 0.3, and PEG's suggested fifth cohort of 0.6. This approach would recognize PSE's conclusions that THESL's performance is better than shown through PEG's original 4th Generation IRM model using the Ontario-only dataset, while also to some degree recognizing PEG's reservations and concerns about the more favourable results of the PSE model.

2.3 Capital and the Cn Factor

A key differentiating factor of the CIR framework from other rate setting methods is that it was particularly designed by the Board "for those distributors with large or highly variable capital requirements."[10] The CIR framework, however, does not prescribe the manner by which these large capital requirements are to be addressed, and leaves it open to distributors to propose a methodology appropriate to its specific circumstances.

THESL's proposed methodology to account for its incremental capital program spending is the addition of the Cn factor to the standard PCI formula. In the SIA's observations, it is the key "custom" element in THESL's CIR application.

The SIA is generally supportive of the Cn factor in accounting and reconciling THESL's needs for capital in excess of what is provided by the standard PCI formula. Subject to the issue of incorporating customer and load growth (as discussed further below), the SIA is confident that the Cn methodology as

[10] RRFE Report, page 3

proposed by THESL is capable of accurately capturing whatever level of capital spending the Board ultimately approves. The SIA notes that PEG also agreed with the use of a modified version of the Cn factor as an appropriate ratemaking tool to account for incremental capital expenditures.[11]

2.4 Load and Customer Growth

THESL's proposed Cn factor excludes load and customer growth in its calculation of 2016-2019 values for inclusion in its PCI formula.[12] THESL justifies this approach largely on the basis that the Board's current 4th Generation IRM model does not adjust for growth, with the implicit assumption that any additional revenue as a result of increasing load or customer growth should be retained by the utility.[13] While such an approach is warranted under the standard 4th Generation IRM, the SIA does not believe that a symmetrical approach is necessarily appropriate for THESL's capital expenditures, as calculated through the Cn factor under its proposed CIR framework.

Fundamentally, the SIA believes that the RRFE Report contemplates that load and customer growth will be factored in determining rates under the CIR methodology: "In the Custom IR method, rates are set based on a five year forecast of a distributor's revenue requirement and **sales volumes**."[14] (emphasis added)

In addition, the SIA views this benefit to distributors under the IRM approach as part of a trade-off: utilities accept inherent risks in managing all their costs under the PCI formula, and in return are permitted to retain any additional revenue from growth. However, as THESL has the benefit of requesting full recovery of the forecast costs of its capital program through the Cn factor (which is well above the recovery permitted under standard IRM)[15], the SIA believes that growth should also be included in the calculation.

Put another way - the IRM framework relies on an estimation methodology and balances various factors, both positive and negative for the distributor. The SIA believes that distributors should not be permitted to pick only the most favourable features of the IRM methodology for inclusion in their CIR applications. In selecting the CIR approach and proposing recovery of its capital program on a forecast cost basis, THESL should not be permitted to benefit from incremental revenue from load and customer growth. Consequently, the SIA believes that the Board should direct THESL to adjust its Cn formula to

[11] PEG Dec 8, 2014 Report
[12] 1B-SIA-3, 1B-OEB-5
[13] 1B-OEB-5
[14] RRFE Report, Page 18
[15] 1B-OEB-6d

account for load and customer growth, based on THESL's own internal forecasts[16] for those elements for each of 2016-2019.

2.5 Unexpected Events and the Z-Factor

As part of this application, THESL has applied for the ability to use the Board's standard Z-Factor provision, citing examples that THESL believes would be covered by these mechanisms.[17] In the RRFE Report, the OEB made clear that the Z-Factor would continue to apply to all utilities, regardless of rate setting methodology:

> "The Board's policies in relation to the treatment of unforeseen events, as set out in its July 14, 2008 EB-2007-0673 Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, will continue under all three menu options."[18]

Furthermore, in its recent EB-2012-0459 Enbridge Decision, the Board stated with regard to the Z-Factor that it "is appropriate to have similar criteria across all regulated entities to facilitate consistent outcomes in specific applications."[19] In its Argument in Chief, THESL essentially acknowledged that it is not proposing anything beyond the standard Z-Factor.

> "...and the takeaway I think you need is to know that Toronto Hydro is not proposing anything different than the Board's standard Z factor treatment. And it may have been perhaps inelegantly articulated, but what is actually being applied for is nothing more than the Board's standard Z factor treatment."[20]

In light of the above, the SIA believes this to largely be a non-issue, and submits that THESL's proposal is appropriate and that the standard Z-Factor mechanism should be available to THESL for the duration of the CIR term.

The SIA also agrees with THESL that the potential events it has identified in its evidence would likely categorically qualify for Z-Factor treatment, but does not believe that there is any need for the Board to speculate or comment on these specific events at this time, before the specific details and circumstances of any such event is known.

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[16] Exhibit 3, Tab 1, Schedule 1, Appendix B (load forecasts) and Appendix C (customer forecasts)
[17] Exhibit 1B, Tab1, Schedule 3, page17-18
[18] RRFE Report, page 13
[19] EB-2012-0459 Decision, page 19
[20] Transcript Volume 10, page 50

2.6 Customer Engagement

In support of its application, and in following the guidance of the RRFE Report, THESL undertook and presented as part of this application a comprehensive customer engagement survey, prepared by Innovative Research Group.[21] In general, the survey results show that customers are to varying degrees concerned about both price and reliability.

In testimony, THESL clarified that the survey results generally demonstrate a conditional acceptance of its proposed capital spending plan:

> "One way to look at that: I don't like the rate increase, but I think it is necessary, that is like an orange light. It says: Okay, I will go along with this. You have made the case. But you need to pay attention to how much you're asking me to pay because I can't keep paying forever at these sort of rates. So they're saying: Pay attention to my need to keep spending under control."[22]

> "I'm seeing a bunch of people that are saying: Proceed, but do it with caution. Make sure if you're going to spend this money that you really need to spend it."[23]

The SIA submits that the customer engagement results as presented by THESL are intuitively valid, and directionally support the plan that THESL has put forward for approval. In the context of this rate application, the customer engagement results are also generally in alignment with the position of the SIA itself. The SIA, as an organization concerned about sustainable infrastructure investment, is certainly supportive of prudent investments that are genuinely required, particularly for asset renewal, but is cautious of spending on projects that may be premature, unjustified, inefficient, or otherwise unnecessary. The SIA has applied this philosophy to its program specific comments further in the sections that follow.

2.7 Evidence Presentation and Program Detail

Through its pre-filed evidence and other supporting documents filed during the course of this proceeding, THESL has presented and made available a very extensive package of material for examination by the parties. The SIA believes that the application was presented at a level of detail that was sufficient to allow parties and the Board to undertake an appropriate assessment of THESL's spending over the term of the plan. The SIA also notes the comprehensive nature and standardized

[21] Exhibit 1B, Tab 2, Schedule 7, Appendix B
[22] Transcript Volume 9, page 139
[23] Transcript Volume 9, page 148

manner of the presentation of THESL's evidence as particularly helpful in allowing for an efficient process of review throughout the various phases of this proceeding.

3.0 Capital

3.1 Overview

As an organization, the SIA is generally supportive of prudent and necessary capital infrastructure investment, provided that infrastructure investment is reasonably paced, efficiently executed, and equitably funded. However, the SIA opposes investments it views as inefficient, unnecessary or excessive, especially in as much as such more discretionary projects would divert limited funding resources away from potentially more critical investment needs. In the comments that follow, the SIA has attempted to apply this philosophy to the specific components of THESL's proposed capital program, as well as THESL's capital program as a whole.

3.2 Program Specific Comments

3.2.1 Underground Legacy Infrastructure (E6.3)

The Underground Legacy Infrastructure program is intended to address non-standard underground equipment and configurations throughout THESL's distribution system.[24] The SIA is generally supportive of this program, but believes the Cable Chamber Cover component[25], which aims to replace cable chamber covers with new designs, is unnecessary and unjustified. The current design of cable chambers have been used for decades, both in Toronto and countless other cities around the world, and the risks that are listed as being of concern to THESL have always existed, and had been successfully managed and mitigated in the past without the need for wholesale asset replacement. Given the much greater risks posed by other failing components of the distribution system, the SIA does not believe the systematic replacement of THESL's cable chamber covers to be a prudent investment at this time. As such, the SIA would support this program but without the Cable Chamber Cover component, which would result in an approximately $1 million reduction in each of the 5 years.[26]

[24] Exhibit 2B, Section E6.3, page 1
[25] Exhibit 2B, Section E6.3, page 15
[26] 2B-SIA-28

3.2.2 Overhead Circuit Renewal (E6.4)

The Overhead Circuit Renewal Program addresses THESL's overhead distribution assets, and is a continuation of similar work undertaken during the ICM and earlier terms. The SIA is fully supportive of this program, and only offers one concern on a specific policy issue regarding pole replacement.

THESL's current policy is "to use wood poles unless existing area by-laws require it to deviate from this practice".[27] However, THESL has also indicated that concrete poles are 25% stronger, and have a lifespan 25% longer than wood poles (60 vs. 45 years), while being 1.2-2 times more costly to purchase and 1-1.4 times more costly to install.[28] In response to inquiries by the SIA, THESL has confirmed that it has not conducted any studies or analysis on the cost efficiency of concrete vs. wooden poles.[29] The SIA would be interested to see such a study or analysis undertaken, and strongly urges the Board to direct that THESL complete such a study or analysis in time for its next rebasing application. The SIA does not envision that this would be an extensive or costly undertaking for THESL to complete. While the current practice of using wooden poles may be justified, based on the cost and benefit ratios provided by THESL, it could very well be the case that installing a concrete pole for 20% higher cost (at the lower end of THESL's estimate) would be a prudent investment in some circumstances if it would result in a 25% longer lifespan of the pole, in addition to other benefits like improved damage resistance (e.g. from vehicle collisions, etc).

3.2.3 Customer-Owned Substation Protection (E7.8)

THESL's Customer-Owned Substation Protection program is designed "to address customer-owned substations which may have an effect on the larger grid", by installing utility owned protection devices upstream of customer equipment. In light of the extensive renewal needs of THESL's system, the SIA views this program as a redundancy, rather than a critical investment that needs to made at this time.

THESL already has a process, the Customer Advice Form, that it uses to require its customers to address any issues on their equipment, which would by necessity address any issues that may have an impact on other customers or the reliability of the grid.[30] THESL also has broad powers under the Distribution System Code to disconnect any customers who may be causing an "adverse effect on the reliability and safety of the distribution system", "a material decrease in the efficiency of the distributor's distribution

[27] 2B-SIA-16b
[28] 2B-SIA-16a
[29] 2B-SIA-16c
[30] 2B-SIA-27

system", and/or failing "to comply with a directive of a distributor that the distributor makes for purposes of meeting its licence obligations."[31] The SIA believes that these powers should be more than sufficient to address any concerns THESL may have regarding customer owned equipment connected to its system, and that any issues it identifies should be addressed through enforcement efforts rather than the need to invest in additional redundancies. As such, the SIA believes that this program should be denied by the Board.

3.2.4 Local Demand Response (E7.10)

THESL's Local Demand Response program is designed to reduce peak demand at Cecil TS, and extend the planning and implementation timelines associated with bus relief at that station.[32] The SIA's concern with this program is that it seems to be a short term solution at delaying a long term problem. THESL believes that through this investment "bus relief that would have otherwise been required in 2020 can be delayed to approximately 2025-2026".[33] The cost of the capital investment in 2025-2026 is estimated at $29.5 million.[34] The cost of this program over the 2015-2019 period is approximately $4.1 million.

Fundamentally, it is the SIA's position that it is not prudent to invest $4.1 million simply to achieve a 5-6 year delay on a $29.5 million investment, despite the additional societal benefits that may accrue to customers during the interim period. In the mid-term, that investment will still be required, and the funding spent on this program could very well have been used to contribute to resolving the underlying issue on a long term basis. For this reason, the SIA believes this program should be denied by the Board.

3.2.5 Energy Storage Systems (E7.11)

THESL's Energy Storage Systems program aims to provide strategic ancillary capabilities to address system efficiency, reliability and power quality through the installation of systems which store electricity for use during periods of peak or high demand.[35] The SIA is concerned that the benefits of this program appear to be loosely defined, limited, and in some cases potentially overstated.

[31] Distribution System Code, Section 4.2.6
[32] Exhibit 2B, Section E7.10, page 1-2
[33] Exhibit 2B, Section E7.10, page 1
[34] 2B-SIA-21
[35] Exhibit 2B, Section E7.11, page 1

For example, in its evidence, THESL claims that one of the benefits of this program would be to provide backup to "emergency services, hospitals, government buildings etc."[36] However, THESL later clarified that "in general, the equipment being considered is not large enough to fully support something such as a hospital"[37] and that institutions with critical loads such as those identified above would typically have their own backup systems already in place (standby diesel and natural gas generators).[38]

Another stated benefit put forward by THESL is that this program would provide power to station ancillary services.[39] However, THESL also later confirmed that its stations already have redundancies in place for such ancillary services using battery technology, which is in accordance with existing regulations (which require such backup capacity).[40]

Further, among other justifications for this program, THESL notes the need to plan for the installation of electric vehicle charging stations. On this point, the SIA echoes the observations of VECC in noting that electric vehicle uptake is in its relative infancy, and is unlikely to see a significant upswing in the near to medium term. This is an observation with which THESL also appeared to be in agreement: "I agree, it would take a lot of consistent work and marketing and support programs to make that happen."[41]

Given the above concerns about an unclear need and loosely defined benefits, and in light of the need for funding for other programs addressing immediate reliability and asset concerns, the SIA submits that this program should be denied by the Board.

3.2.6 Voice Radio System (E8.7)

This program is intended to upgrade THESL's existing voice radio system, which it uses to communicate with its field staff. While the SIA certainly believes that this asset is important and necessary to THESL's operations, it does not believe that a full system replacement is justified over the 2015-2019 timeframe.

The majority of the justification for this program that THESL has put forward in its business case explains the underlying need of the utility to have a communication system, but in the SIA's analysis does not convincingly justify the need for a new replacement communication system. For example, the

[36] Exhibit 2B, Section E7.11, page 4
[37] Transcript Volume 5, page 65
[38] Transcript Volume 5, page 66
[39] Exhibit 2B, Section E7.11, page 4
[40] Transcript Volume 5, page 69
[41] Transcript Volume 5, page 81

SIA naturally accepts that such a communication technology is needed by all utilities in order to "coordinate responses to trouble calls", provide updates "about changing conditions in an emergency situation", and "to safely and effectively respond to trouble calls", among other reasons.[42] However, the SIA does not believe that any of these reasons justify an immediate investment in a new system to replace one that is currently in use and working relatively adequately (even if not to the standard THESL would ideally prefer).

THESL states that the primary trigger driver for this program is the need to "maintain the high reliability and availability of critical voice communications to Toronto Hydro field crews to protect them from injury or harm, and to provide them priority access to emergency services"[43] However, THESL confirms that in the event of a communication failure it "requires all field operations to be stopped when the system is down, and requires that field work only resume after the system has been completely restored."[44] Clearly, the safety aspect of a potential communication failure is already being addressed through a prudent safety policy.

Additionally, while requiring such precautions may result in operational delays, THESL has indicated that it experienced only approximately 40 such failures in 2012.[45] Given the volume of communications undertaken by THESL and its crews annually, the SIA does not believe that such a relatively small number of failures, some of which may have been momentary or otherwise short in duration, in any way justify a wholesale replacement of THESL's communication system, particularly through a capital program of this magnitude ($20.41 million over 2015-2019).

Based on the concerns noted above, the SIA believes that this program should be denied by the Board.

3.3 Capital Program - Summary of Recommendations

3.3.1 Capital Program

Aside from the specific program issues noted above, the SIA is generally supportive of the remaining capital programs proposed within THESL's Distribution System Plan. The SIA takes some measure of reassurance from the fact that 86% of THESL's capital plan is composed of former ICM programs[46],

[42] Exhibit 2B, Section E8.7, page 2
[43] Exhibit 2B, Section E8.7, page 3
[44] Exhibit 2B, Section E8.7, page 3
[45] Exhibit 2B, Section E8.7, page 11
[46] 1B-SIA-15a)

which by their very nature are non-discretionary, were already thoroughly reviewed by the parties and the Board as part of the EB-2012-0064 proceeding, and which are the types of programs that the SIA believes deliver the most value in terms of improving reliability and addressing THESL's backlog of aged assets.

The other issue for consideration with regard to THESL's proposed capital expenditures is the pacing and overall magnitude of the proposed spending. Taken in its entirety, the SIA believes that THESL's proposed capital program is certainly aggressive, but not extreme. The SIA notes that THESL's capital spending between 2011-2014 was on average $440 million per year.[47] In this application, THESL proposes spending levels of approximately $497 million per year.[48]

The SIA is mindful of the Board's comments in the recent EB-2013-0416 Decision, in which it observed that significant reductions in HONI's proposed capital spending "would likely create cost pressures in the longer term"[49] Given THESL's demonstrated capital needs to address a substantial backlog of aged and failing assets, the SIA certainly believes this concern to be equally if not even more true in this proceeding.

THESL has also noted the potential consequences of delay, indicating that the impact extends beyond higher costs in the future: "every year that we delay, our need grows, the impact on our customers grows, the impact on reliability grows."[50]

With the above considerations in mind, the SIA proposes, in addition to the program specific reductions noted earlier, only relatively modest additional adjustments to THESL's proposed capital plan to address concerns of overall magnitude, pacing, and rate and bill impacts. In this regard, the SIA would suggest that THESL's capital program be reduced by a further $25 million per year, with these reductions to be determined at THESL's discretion. This could be done by either postponing those investments THESL believes are least important, or finding additional efficiencies in the overall program. The SIA believes that THESL, as the author of the program, would be best positioned to identify those programs or portions of programs that are of lowest priority from a customer value perspective.

In combination, the reductions proposed by the SIA would result in a capital program of approximately $463 million per year - approximately $34 million per year less than what THESL has proposed, but also $23 million more than THESL's average capital spending between 2011-2014. The SIA believes that

[47] Exhibit 1A, Tab 2, Schedule 1, page 15
[48] Exhibit 1A, Tab 2, Schedule 1, page 15
[49] EB-2013-0416, page 38
[50] Transcript Volume 5, page 134

this level of spending should allow THESL to undertake the vast majority of its capital program, particularly the system renewal category, while to some extent addressing concerns about pacing, discretionary capital spending, and rate and bill impact mitigation.

The details of the SIA's proposed adjustments are summarized in Table 1 below:

Table 1 - Summary of Capital Spending Recommendations

CATEGORY	Forecasted Spend ($M)					
	2015	2016	2017	2018	2019	Total
Capital Plan (as filed)	**$539.61**	**$504.24**	**$467.36**	**$470.05**	**$502.16**	**$2,483**
Less: E6.3 (UG Legacy Infr.)	-$1.00	-$1.00	-$1.00	-$1.00	-$1.00	-$5.00
Less: E7.08 (SubStn. Protection)	-$0.59	-$1.03	-$1.03	-$0.78	-$0.61	-$4.04
Less: E7.10 (Demand Response)	-$0.17	-$2.40	-$0.60	-$0.50	-$0.35	-$4.06
Less: E7.11 (Energy Storage)	-$0.54	-$1.10	-$2.20	-$3.20	-$3.80	-$10.8
Less: E8.7 (Voice Radio)	-$6.68	-$13.73				-$20.41
Less: Additional Reductions (at THESL's Discretion)	-$25.0	-$25.0	-$25.0	-$25.0	-$25.0	-$125.0
Total Proposed Adjustments	**-$33.98**	**-$44.26**	**-$29.83**	**-$30.48**	**-$30.76**	**-$169.31**
Proposed Revised Capital	**$505.63**	**$459.98**	**$437.53**	**$439.57**	**$471.4**	**$2,313.7**

3.3.2 Filing a Revised Capital Spending Plan

THESL has indicated that in the event that any portion of its capital program is denied, it would need to re-evaluate the entirety of its program to determine the areas in which it would reduce spending.[51] The SIA accepts this approach, but believes that the Board should require THESL, at some time after issuing its decision but prior to the end of 2015, to re-file its planned capital spending (at the program level[52]) after incorporating any program specific and/or top-level reductions stemming from the Board's decision in this proceeding. This would allow for a comparable baseline to be established for the duration of the plan, such that progress could be tracked and evaluated. In the absence of an updated plan (which would incorporate any reductions stemming from the Board's decision), intervenors and the Board would lack visibility into how much any future variations in spending are a result of planning adjustments resulting from the Board's decision in this proceeding, and how much is a result of a potential failure to meet the

[51] Transcript Volume 4, page 121
[52] In the format of OEB Appendix 2-AA (Exhibit 2A, Tab 6, Schedule 2)

intended plan. The establishment of a revised plan is particularly relevant in light of the SIA's further submissions on reporting metrics (refer to section 5.4.1 below), in which the SIA suggests that the DSP Implementation Progress metric be broken out into the relevant DSP spending categories and tracked versus the projected spending (by category) for the purpose of annual reporting.

3.4 Rate Base and In-Service Additions

3.4.1 Enterprise Resource Planning (E.8.6)

THESL's ratebase calculations are based on its internal estimates of in-service dates for specific projects. In the case of the Enterprise Resource Planning ("ERP") program, THESL has forecast an in-service date of late 2016. The SIA submits that this in-service date should be adjusted to 2017. Given THESL's experiences with the Copeland project, which has been delayed from Q4 2014 to Q3 2016[53], and similar experiences with other smaller projects over the ICM period, the SIA believes it seems more likely than not that the ERP project will be delayed into 2017, given its ambitious completion date of late 2016. The SIA also notes that the ERP project is currently at a relatively preliminary stage, with an RFP for a vendor yet to even be issued. As THESL testified that the majority of the projected costs would go in service only at project completion, the SIA submits that this amount of $51.3[54] million should be moved into 2017 in calculating in-service additions for THESL's rate calculations.

3.4.2 Externally Initiated Plant (E5.3)

Regarding its Externally Initiated Plant program, THESL indicated that:

> "Although the utility forecasts that this program will cost approximately $119 million between 2015 and 2019, it has included only one-sixth of this amount (approximately $20 million) in its revenue requirement, or approximately $4.0 million of net Toronto Hydro costs per year. This sub-forecast amount represents a base level of spending that will be required over this term. Toronto Hydro proposes to seek rates funding only for this sub-forecast base amount, with a variance account to record differences from this amount."[55]

[53] THESL February 6, 2015 Evidence Update
[54] Transcript Volume 6, page 134
[55] Exhibit 2B, Section E5.3, Page 3.

THESL goes on to say that:

> "To reconcile the variable, non-discretionary nature of the work with its resulting bill impact, Toronto Hydro has intentionally included a below-forecast level of Relocation Spending in the utility's Distribution System Plan ("DSP") for the 2015-2019 period"[56]

The SIA does not believe that this approach, and THESL's justifications of it, are appropriate.[57] Fundamentally, the SIA does not believe in building into rates a deliberate, or very likely, revenue deficiency that will need to be paid for by future ratepayers in 2020. While the SIA acknowledges THESL's concern about hedging against high variability, the SIA believes that only including 1/6th of the forecast in current rates is an extreme approach. In addition, the SIA notes that the proposed spending of $4.0 million per year is even lower than the approximately $8.6 million annual average THESL actually spent on this activity over the past 5 years.[58] Given projections of increased construction development within the city of Toronto, the SIA would expect spending over the CIR term to at least match, if not exceed that of historic levels.

The SIA believes that spending within this category should be forecast using a more moderate approach that would more realistically match the expected outcome over the 2015-2019 period. Rather than the 1/6th or $4.0 million proposed by THESL, the SIA believes that 50% of THESL's forecast, or approximately $11.9 million per year, is a more reasonable assumption. The SIA submits that the Board should require THESL to adjust the amounts it has included in rates for this program on this basis.

Such a direction would increase rates over the test period (relative to those THESL has currently proposed), but it will also properly allocate a higher portion of forecast costs to current rather than future customers, and minimize any carrying costs and variances that may need to be collected from customers in the future.

4.0 OM&A

4.1 Overview

As part of this application, THESL has presented its OM&A budget on a test year forecast basis for 2015, with allowable spending over the 2016-2019 period to be determined by the application of a PCI formula. The SIA has some limited comments with regard to specific components of the proposed 2015

[56] Exhibit 9, Tab 1, Schedule 1
[57] 2B-SIA-22
[58] Exhibit 2B, Section E5.3, Page 3.

OM&A budget. Additionally, while the SIA is supportive of the PCI approach for the 2016-2019 period, it has some concern with the magnitude of the proposed increase inherent in the 2015 OM&A forecast relative to actual OM&A spending in 2014. These concerns are detailed and summarized in the sections that follow.

4.2. OM&A Program Details

4.2.1 Rates and Regulatory Affairs

THESL's application seeks recovery of historic and forecast costs of filing this CIR application, and historic costs related to the filing of the Wireless Forbearance application. As the basis for this request, THESL indicated that "the Wireless Forebearance and the CIR application costs are incremental to the costs included as part of the approved Regulatory Affairs budget in its last rebasing application (EB-2010-0142)"[59]

However, THESL also confirmed that approximately $1.4 million in annual forecast regulatory costs were embedded in 2011 rates, specifically in the categories of intervenor and application costs, expert witness costs, legal costs, and consultant costs.[60] Clearly, such categories of costs form part of THESL's current rates, with at least $5.6 million of funding already available over 2011-2014 for these specific activities.

In light of this, the SIA submits that it is disingenuous for THESL to claim that its Wireless Forbearance application and historic CIR application costs are "incremental" to its current rates and should be recovered over the 2015-2019 period. The fact that THESL may have overspent on other regulatory applications beyond the $5.6 million embedded in rates and/or under-forecast its regulatory spending on these activities (as part of its 2011-2014 application in EB-2011-0142) is a different argument. However, this does not mean that these costs automatically become incremental to other costs, or that they should be treated any differently than any other historic budget category with demonstrated overspending versus what was approved in rates. The SIA also notes that THESL has never claimed such historic costs in any of its prior rate applications[61], which aligns with the position that such costs had always been included in its rates on a forward forecast basis.

[59] 4A-SIA-42a
[60] 4A-SIA-42b/c
[61] 4A-SIA-41b

The SIA submits that the historic (2013-2014) portion of the costs related to this CIR application and the entirety of the Wireless Forbearance application should not be recoverable on the basis that they were categorically already included in existing base rates. In addition, the costs are out-of-period costs that were not tracked in an approved deferral or variance account; it is the SIA's understanding that permitting the recovery of such costs now would amount to retro-active rate making.

Excluding the historic 2013-2014 portion of the CIR application costs and the entirety of the Wireless Forbearance application costs would result in a reduction to OM&A of approximately $4.6 million[62] over the CIR period, or approximately $1.0 million per year.

4.3. OM&A - Summary of Recommendations

THESL has proposed an OM&A budget of $269.5 for 2015.[63] In comparison, the SIA notes that THESL's actual OM&A costs for 2014 were $241.2 million[64], $28.3 million lower than proposed for 2015. The proposed 2015 costs are also approximately $30.9 million higher than the last Board approved amount in 2011 of $238.6 million, with over 90%[65] of this increase occurring in the current rebasing year.

While the SIA is supportive of THESL's approach to escalating its OM&A by the PCI formula in 2016 through 2019, it is concerned that the proposed increase in 2015 over what was actually spent in 2014 is unreasonably large.

The SIA notes that THESL's proposed 2015 OM&A budget represents an increase of approximately 11.7% over 2014 actual spending, or approximately 3.1% per year between 2011 and 2015. The SIA believes that a more balanced, reasonable, and appropriate level of increase relative to 2011 would be 2.0% per year, which would produce a 2015 OM&A budget of $258.3 million, $11.2 million less than what THESL is currently requesting, but still $17.1 million more than what was actually spent in 2014. The SIA believes that establishing a reduced base level of 2015 spending on the basis of a projected 2% annual increase relative to 2011 is justified, in that it still provides for an above inflation level of increase relative to approved 2011 rates, and a sizeable $17.1 million (or 7.1%) increase relative to actual spending in 2014.

[62] Exhibit 4A, Tab 2, Schedule 17 (taking $0.1M+$1.2M+$3.3M for 2012, 2013, and 2014 respectively)
[63] Exhibit 4A, Tab 1, Schedule 1, page 4, Table 1
[64] Exhibit OH, Tab 1, Schedule 5
[65] $28.3/$30.9 = 92%

The SIA further proposes that the suggested disallowance of the CIR and Wireless Forbearance application costs noted earlier above be treated as incremental to the $11.2 million overall OM&A reduction, producing a final proposed OM&A budget of $257.3 million, as summarized in Table 2 below:

Table 2 - Summary of OM&A Recommendations

($M)	2015 Test
Total OM&A (as per THESL's application)	269.5
Less: Other OM&A Reductions (at THESL's discretion)	-11.2
Less: Historic CIR and Wireless Application Costs	-1.0
Total Proposed Reductions	-12.2
Proposed Revised OM&A	257.3

5.0 Metrics and Reporting

5.1 Overview

As part of its application, THESL has developed "a set of 12 measures to monitor quality and drive continuous improvement in its distribution system planning and implementation work over the 2015-2019 planning horizon."[66] The SIA's comments on the specific proposed measures and the manner and timing of their reporting are detailed below.

5.2 Targets and Projections

THESL's proposal for the annual reporting of its metrics "is a table, showcasing the results from the reporting year, alongside performance statistics for the preceding five years where such data is available"[67] The SIA believes that providing historical data is a helpful reference.

However, for those metrics for which THESL has provided expected projections, namely SAIDI and SAIFI[68], the SIA requests that THESL also provide those projections alongside the historical and actual

[66] Exhibit 2B, Section C, page 3
[67] Exhibit 1B, Section C, page 4
[68] Exhibit 2B, Section 00, page 8, Figures 3 and 4

results and explain any variances. This will give a clear indication of not only progress versus historical results, but progress relative to the expected outcome of the plan (for these two specific metrics were projections are or can be made available).

The SIA notes THESL's concerns with establishing formal targets out of these measures[69], and agrees with THESL that there is currently insufficient data to set meaningful targets over this period. The SIA expects that once results for this five year period become available, they will allow the Board to set appropriate targets, with incentives and penalties, at THESL's next rebasing application.

However, the SIA does believe that treating the 2015-2019 SAIDI and SAIFI projections as informal "soft targets", simply for high level assessment purposes as to the progress of THESL's plan, would nonetheless be beneficial to the parties and the Board, and requests that the Board direct THESL to include these projections (and corresponding variance explanations) as part of its annual reporting metrics.

5.3 Filing Timelines

THESL has proposed to report its annual metrics to the Board by June 30 of each year, for the previous years data.[70] The SIA believes that an earlier date for reporting would be more appropriate, otherwise substantial time will have already elapsed before any response to the reported data could be provided by the Board. The SIA believes that April 30th of each year would be a more appropriate deadline, and coincide with the filing deadlines for similar data currently provided through the RRR process (suggesting data availability should not be an issue with this earlier filing date).

5.4 Specific Metric Proposals

5.4.1 Distribution System Plan Implementation Progress

In following the guidance of the RRFE Report, THESL has proposed a Distribution System Plan Implementation Progress metric that would measure total spending against total approved capital. [71] THESL proposes to report this metric as a single value encompassing the entirety of its capital program, and does not propose reporting the underlying details (e.g. at the spending category, program, or project levels).

[69] Undertaking J1.1
[70] Exhibit 1B, Section C, page 4.
[71] Exhibit 2B, Section C, page 15

In determining the appropriate level of detail that would be beneficial for the Board and other parties, the SIA believes that it is important to consider the types of variances that would be meaningful and sufficiently material to potentially require a re-evaluation of THESL's plan during the course of the term (i.e. at some time prior to the next scheduled rebasing). For example, the SIA believes that it would be important to know if in managing its capital budget THESL is materially under-spending in System Renewal but overspending in General Plant, but does not believe it to be necessary (for annual reporting purposes) to know whether THESL is under-spending on Overhead Renewal but overspending on Underground Renewal. A mid-period review of THESL's spending may be warranted in the former case, but would very likely be unnecessary in the latter.

Consequently, the SIA submits that THESL's proposed Distribution System Plan Implementation Progress metric should be modified to also report spending in each of the high level categories of System Access, System Renewal, System Service, General Plant, and Other Capital. The SIA believes that this would provide an appropriate balance between visibility into THESL's implementation of its capital plan and simplicity of data tracking and reporting. Any spending variations, in total or by category, could then be explained by THESL in its annual reporting and addressed at a high level during the interim annual reviews, without the need for extensive administrative reviews of program level variations, which THESL has acknowledged will almost certainly occur.[72]

If THESL is found to be significantly under-spending versus approved levels, or significantly under-spending in any one capital category without sufficient justification, it would allow the Board to request additional detail or even initiate a full review of THESL's capital plan, as envisioned by the RRFE Report: "If actual spending is significantly different from the level reflected in a distributor's plan, the Board will investigate the matter and could, if necessary, terminate the distributor's rate-setting method."[73]

Regardless of the level of annual reporting, it is the SIA's understanding and expectation that actual results and variances on a program by program level (based on a re-filed capital expenditures plan, as proposed earlier by the SIA in section 3.3.2) would still be tracked and would ultimately be available for review by the Board and intervenors at the time of THESL's next rebasing application.

[72] Transcript Volume 5, page 134
[73] RRFE Report, page 20

5.4.2 Percentage of Assets Past Their Useful Life

Throughout its evidence and at the oral hearing, THESL consistently referred to the fact that a large portion of its assets are past their useful life, and that this proportion of assets will continue to increase in the absence of its proposed capital plan.[74] Given the importance placed on this measure by THESL, and given that achieving a lower percentage of assets past their useful life appears to be central to THESL's goal of reaching a "steady state" of capital replacement, the SIA submits that this value should form part of the annual metrics reported by THESL. Being able to monitor THESL's progress towards reducing the number of assets past their useful life over the term of the CIR plan would reassure parties and the Board that THESL's capital plan is effectively addressing the core issue of aging infrastructure.

The SIA therefore suggests a "Percentage of Assets Past Their Useful Life" metric be included as part of THESL's annual reporting, to be calculated and reported to one decimal place.

5.4.3 SAIDI and SAIFI Caused by Defective Equipment

THESL indicates that it has chosen the number of outages caused by defective equipment as a tracking measure (as opposed to the defective equipment sub cause code of SAIDI and SAIFI), to eliminate complexities of tracking on a system-wide basis.[75] While the SIA acknowledges this concern, it nonetheless believes that the defective equipment cause code metrics for SAIDI and SAIFI would be appropriate to include alongside THESL's Number of Outages caused by Defective Equipment metric. It is the SIA's understanding that THESL already tracks this measure as a matter of policy, and so requiring it to be included as part of its annual reporting metrics should not be problematic. As such, the SIA requests the Board require this metric to also be included.

5.5 Annual Reporting and Metrics - Summary of Recommendations

The SIA's proposed additions and adjustments to THESL's reporting metrics are summarized in Table 3 below. The SIA notes that its additional reporting metrics would increase the metrics in the Asset/System Operation Performance sub-category, to bring it in balance with the number of metrics in the other two categories.

[74] Exhibit 2B, Section 00, page 7, Figure 2
[75] 2B-SIA-23

Table 3 - Summary of Reporting Metric Recommendations

Customer-Oriented Performance	Cost Efficiency/ Effectiveness of Planning	Asset/System Operation Performance
1. System Average Interruption Duration Index (SAIDI). ***[Adjust: report vs. projections]***	1. Distribution System Plan Implementation Progress. ***[Adjust: report by DSP category]***	1. Outages caused by defective equipment.
2. System Average Interruption Frequency Index (SAIFI). ***[Adjust report vs. projections]***	2. Planning Efficiency: Engineering, Design and Support Costs.	2. ***Add: SAIDI Caused by Defective Equipment***
3. Customer Average Interruption Duration Index (CAIDI).	3. Supply Chain Efficiency: Materials Handling On-Cost.	3. ***Add: SAIFI Caused by Defective Equipment***
4. Feeders Experiencing Sustained Interruptions (FESI).	4. Construction Efficiency: Internal vs. Contractor Cost Benchmarking.	4. Stations capacity availability.
5. Momentary Average Interruption Frequency Index (MAIFI).	5. Construction Efficiency: Standard Asset Assembly Labour Input.	5. ***Add: Percentage of Assets Past Their Useful Life***

6.0 Other Issues

6.1 True-Up and ICM Matters

As part of this application, THESL has proposed to defer the ICM True-Up process, as it relates to ICM projects completed during the 2012-2014 period, to a later phase of this proceeding. In testimony on Day 7 of the Oral Hearing, THESL further clarified that there are two issues to consider with regard to ICM projects[76]:

[76] Transcript Volume 7, page 156

1) To determine if all actually completed ICM jobs qualified for inclusion in the Board's approved ICM segments, and whether the revenue requirement associated with each of these segments is above or below the revenue collected through the ICM rate riders. To the extent there is a variance, it will need to be refunded to or collected from customers.

2) To determine if any of the spending was categorically imprudent, such that it should not be allowed in opening ratebase for 2015.

As part of the Day 7 testimony, THESL further proposed a variance account to allow for retroactive adjustment to opening ratebase should any ICM projects be deemed imprudent.[77]

The SIA has no objections to the deferral of the True-Up portion related to the revenue requirement varainces during 2012-2014 (point 1 above), as this is strictly a historic revenue reconciliation issue. With regard to ratebase (point 2 above), given that the information was not available to form part of this proceeding, the SIA believes that THESL's proposal for a variance account is an appropriate mechanism under the circumstances. Since the ICM projects were examined in detail by the Board as part of the EB-2012-0064 proceeding, and given that the completed projects THESL has provided in Exhibit OH, Tab 1, Schedule 3 appear to be categorically similar to other approved ICM jobs, the SIA does not believe that any material portion of these projects are likely to be ineligible for inclusion in opening ratebase. As such, the SIA believes that it is appropriate that the presumption of prudence be upheld, and that THESL's forecast amount be included in opening ratebase. In the event that any projects are found to be imprudent, the proposed variance account will allow for appropriate adjustments in due course.

6.2 Streetlighting Asset Transfer

The SIA makes no particular recommendations with regard to the Streetlighting asset transfer issue, but does offer some observations for the Board's consideration. Fundamentally, it appears to the SIA that the issue before the Board is one of balancing accuracy of data with the authority of prior Board decisions.

In reviewing THESL's evidence on this matter, it appears clear that the valuation presented in this application is a more accurate representation of the value of the assets than that put forward before the Board in the original Valuation Decision (EB-2009-0180).[78] However, the SIA does not believe that THESL has put forward any credible reason why, having had the opportunity in EB-2000-0180, it did

[77] Transcript Volume 7, page 156
[78] Exhibit 2A, Tab 5, Schedule 1

not put forward a different (more accurate) valuation for the Board's consideration at that time, or did not undertake the same exercise that it undertook in this proceeding in order to determine the true and accurate value of the assets.

The August 3, 2011 Valuation Decision was premised on the very requirement that THESL undertake a valuation study of the assets the Board determined were to be transferred to the regulated utility, and to present it to the Board for consideration. THESL undertook the work to complete that valuation study (the ValuQuest Study) sometime in early 2010, filed it for the Board's consideration in early 2011, obtained a decision in August 2011, and then using the approved valuation filed evidence with regard to the transfer of these assets into ratebase as part of its rate application in EB-2011-0144. Now, nearly three years later, it appears THESL is asking for a second opportunity to present valuation data, essentially revising the original Valuation Decision.

While the data presented in the current proceeding is undoubtedly more accurate, it greatly undermines the finality of the Board's Decision issuing process. While the SIA supports the inclusion of the streetlighting assets on the basis of the most accurate data available, it finds THESL's justifications[79] as to why the original valuation study was not accurate, and why an accurate study was not undertaken in 2010, indirect, unclear and unconvincing. The Board needs to consider whether the merits of improved data accuracy outweigh what appears to be a direct attempt at overturning a prior Board Decision with relatively limited justification.

6.3 Revenue Offsets & Specific Service Charges

The SIA supports THESL's proposed increases to its specific service charges.[80] This is an issue that the SIA has advocated for in other distribution rate proceedings, and is pleased that THESL has reviewed its applicable services and adjusted the related charges in order to more closely align revenues with actual costs.

While the SIA directionally also supports the increase to the Wireline attachment rate, it will reserve further comment on this issue, and the appropriate magnitude of the rate, until after the conclusion of the sub-proceeding concerning this specific charge.

[79] 2A-SIA-8
[80] Exhibit 8, Tab 2, Schedule 1

6.4 Cost Allocation and Rate Design

The SIA takes no position on the issues of cost allocation and rate design, other than the proposed cost allocation for the streetlighting class. THESL claims that it is "keeping street lighting rates constant at 2014 rates, on the basis that the Board is still looking into one of the components, one of the important components of the cost allocation model when it comes to street lighting."[81] The SIA is mindful that a similar argument was brought before the Board as part of a motion by the City of Hamilton requesting that Hydro One's streetlighting rates be declared interim[82]. In its Decision denying the motion, the Board dismissed the argument that a pending policy review is an adequate reason to suspend the finalization of proposed rates.[83] The SIA believes that this logic equally applies in the current circumstances. Until a Board policy is updated, the current Board policy remains in place and continues to be in effect. The SIA does not believe there is any reason to limit the application of current policy, and freeze rates for one particular class, on the basis of speculative expectations about future changes to an applicable policy. Consequently, the SIA believes the Board should direct THESL to perform its cost allocation to the Streetlighting rate class on the same basis as all other classes.

All of which is respectfully submitted.

[81] Transcript Volume 8, page 35
[82] EB-2013-0416, City of Hamilton Motion
[83] EB-2013-0416, Transcript Volume 6, Decision on Motion by City of Hamilton, page 98