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By Email and RESS - signed original to follow by mail

February 5, 2016

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

Re: Toronto Hydro-Electric System Limited Distribution Rates 2015-2019 (EB-2014-0116) - SIA Draft Rate Order Submission

Dear Ms. Walli,

Please find attached the submissions of the Sustainable Infrastructure Alliance of Ontario (the “SIA”) in respect of the Draft Rate Order ("DRO") filed by Toronto Hydro-Electric System Limited ("THESL"). The SIA has reviewed the DRO, and notes the following issues for consideration.

Capital Spending Approval

In its rate application, as part of its rate setting mechanism for 2016-2019, THESL proposed a stretch factor of 0.3% to be applied to the OM&A component of its rates formula. As part of its December 29, 2015 Decision and Order ("Decision"), the OEB determined that the stretch factor would be 0.6%, and in addition to OM&A, would also apply to THESL's capital funding in the form of the C-Factor: "The OEB finds that a 0.6% stretch factor is appropriate. The stretch factor will apply to the C-factor..."[1] The OEB further emphasized the importance of this aspect of the Decision in specifically incenting productivity improvements: "the OEB is concerned that the Application does not contain enough productivity incentives. Application of the stretch factor to

[1] Decision, page 19.

the C factor is one way to remedy this deficiency."[2] The Decision, however, did not explicitly prescribe the method by which the OEB intended the stretch factor to be applied to the C factor.

In its DRO, THESL has assumed that stretch factor productivity is simply included as part of the OEB's 10% reduction to its proposed capital spending:

> "The quantum of the C-factor is reduced to implement the approved capital expenditure amounts resulting from the 10% reduction inclusive of the amounts of expected productivity gains determined by the application of the stretch factor"[3] (emphasis added)

The SIA questions whether the approach taken by THESL correctly responds to the OEB's direction concerning capital productivity. In the Decision, the OEB has not indicated that capital productivity is already embedded, or intended to be embedded, as part of the 10% reduction that the OEB applied to THESL's overall capital budget. On the other hand, THESL's assumption that the stretch factor is included in the 10% reduction effectively nullifies the OEB's Decision with regard to the stretch factor applying to the C Factor, as it eliminates the application of any productivity expectations to THESL's approved capital spending over the term of the rate plan.

The SIA believes that a more appropriate interpretation of the Decision would require THESL to derive 0.6% in cost savings on its approved capital spending, paralleling the expectations for its approved OM&A spending. Under this approach, the combined effect of the OEB's Decision concerning capital would require THESL to complete 90% of its proposed capital work, but with approximately 89.4% of the required funding. That is, the expectation would be for THESL to achieve 100% of its approved capital plan with 99.4% in rate funding and 0.6% in capital efficiency savings.

For ease of reference, the SIA has reproduced Table 2 from THESL's DRO, applying the 0.6% productivity as incremental to (rather than "inclusive of") the OEB's 10% capital spending reduction, and adding 2015 rebasing year information for completeness:

[2] Decision, page 18.
[3] THESL DRO, page 10.

Capital Expenditure Amounts ($M)

CAPEX	2015	2016	2017	2018	2019
Application	531.1	$518.8	$467.4	$470.1	$502.2
Reduction: 10%	($53.1)	($51.9)	($46.7)	($47.0)	($50.2)
Stretch Factor: 0.6%	($0.0)	($3.1)	($2.8)	($2.8)	($3.0)
Total Approved Capital Funding	$478.0	$463.8	$417.9	$420.3	$449.0

OM&A Spending Approval

In its Decision, the OEB reduced THESL's proposed OM&A spending level for 2015 from $269.5 million to a base of $246.3 million. This reflected the OEB's determination that "a 2015 base OM&A increase should be 2.1%, approximately the rate of inflation over the 2014 actual spending."[4] As part of its DRO, THESL has accepted this determination, but applied several OM&A "adjustments" to this base OM&A level: maintenance costs associated with transferred street-lighting assets of $3.7 million (mitigated by a corresponding increase to revenue offsets[5]), regulatory application costs of $1.2 million, and the conversion to using a cash basis in calculating other post employment benefits of ($2.3) million. These adjustments result in total OM&A spending of $248.9 million for 2015.

The SIA notes that the Decision did not explicitly call for these adjustments to be applied. However, given the OEB's reference to the $246 million value as a "base OM&A" amount[6], and the fact that all these adjustments correspond to other approvals in the OEB's Decision (and in the case of street-lighting costs are directly offset by corresponding fees), the SIA believes them to be reasonable.

[4] Decision, page 10.
[5] THESL DRO, page 5
[6] Decision, page 2.

Externally Driven Capital Variance Account

As part of its application, THESL requested a variance account "to track the difference between the capital embedded in base distribution rates related to third party initiated relocation and expansion capital spending and the capital related to actual relocation spending as it occurs over the 2015 to 2019 CIR period."[7] As part of its Decision, the OEB approved the account as proposed by THESL.[8] In its Draft Accounting Order for this variance account filed as part of its DRO, THESL provides an example as to what would happen if actual expenditures on relocation work end up higher than the amount embedded in rates.[9]

Given the apparent original intention for this variance account to be symmetrical, the SIA seeks clarification and confirmation as to the accounting treatment THESL will apply if in any given year actual spending is less than the $4 million embedded in rates. Specifically, the SIA invites THESL to comment as to whether this account is intended to also capture under-spending, or alternatively if any potential under-spending relative to the $4 million will be captured as part of the Capital-Related Revenue Requirement Variance Account.

Subject to the above concerns, the SIA has no further comments on the DRO, and to its understanding is satisfied that all other elements of the DRO reasonably reflect the OEB's Decision.

Sincerely,

[original signed by]

Dionisio Rivera

[7] Exhibit 9, Tab 1, Schedule 1, page 2.
[8] Decision, page 50.
[9] THESL DRO, Schedule 11.