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July 12, 2016

via RESS and electronic mail to BoardSec@ontarioenergyboard.ca

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

Dear Ms. Walli:

**Re: Toronto Hydro-Electric System Limited ("Toronto Hydro")
Incremental Capital Module ("ICM") True-up Application – Settlement Proposal
OEB File No. EB-2015-0173**

In accordance with OEB Procedural Order No. 2, a Settlement Conference was held on June 28, 2016. On behalf of and with the agreement of all the parties involved in the Settlement Conference, we are enclosing a Settlement Proposal that provides for a complete settlement of all issues in this proceeding.

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

Regards,

A handwritten signature in blue ink, appearing to read "Andrew J. Sasso".

Andrew J. Sasso

cc: Charles Keizer, Torys LLP
Anila Dumont, Toronto Hydro
Intervenors of Record for EB-2015-0173

SETTLEMENT PROPOSAL

TORONTO HYDRO-ELECTRIC SYSTEM LIMITED

Incremental Capital Module (“ICM”) True-up Application

EB-2015-0173

July 12, 2016

**Toronto Hydro-Electric System Limited
ICM True-up Application
EB-2015-0173**

SETTLEMENT PROPOSAL

A. PREAMBLE

This Settlement Proposal is filed with the Ontario Energy Board (the “OEB”) in connection with the application filed by Toronto Hydro on March 8, 2016 for an order or orders pursuant to section 78 of the *Ontario Energy Board Act, 1998* (the “OEB Act”) as amended, for approval of an Incremental Capital Module (“ICM”) funding true-up amount of \$11.1 million and the resulting rate rider (the “ICM True-up Application”).

Toronto Hydro’s ICM True-up Application arose out of the EB-2012-0064 proceedings in which the OEB directed that a process take place at the end of the ICM period (2012-2014) to address any variances between revenue collected through the initial ICM rate rider and the revenue requirement associated with actual in-service addition (“ISA”) expenditures.¹

In Procedural Order No. 1, issued April 25, 2016, the OEB approved the intervenors in this proceeding and set dates for filing interrogatories and their responses. Interrogatories were filed by OEB Staff and all intervenors, with the exception of the Building Owners and Managers Association (“BOMA”). On May 27, 2016, Toronto Hydro filed its responses to the interrogatories.

On June 14, 2016, Toronto Hydro wrote to the OEB requesting that a Settlement Conference be ordered as the next procedural step in this proceeding. On June 17, 2016, the OEB issued Procedural Order No. 2, directing that a Settlement Conference be held on June 28, 2016 starting at 9:30 am and continuing on June 29, 2016, if necessary, in the OEB hearing room at 2300 Yonge Street, 25th Floor, Toronto, Ontario.

On June 27, 2016, Sustainable Infrastructure Alliance of Ontario (“SIA”) withdrew as an intervenor in this proceeding.

The Settlement Conference was duly held on June 28, 2016 in accordance with the OEB *Settlement Conference Guidelines* (the “Guidelines”). This Settlement Proposal arises from the Settlement Conference.

¹ EB-2012-0064 Toronto Hydro-Electric System Limited Decision and Rate Order (May 9, 2013), Accounting Order at pp. 2-3; EB-2012-0064 Toronto Hydro-Electric System Limited Partial Decision and Order (April 2, 2013) at p. 75.

The Parties

Toronto Hydro and the following intervenors (collectively, the “Parties”) participated in the facilitated Settlement Conference:

- Association of Major Power Consumers in Ontario (“AMPCO”)
- Consumers Council of Canada (“CCC”)
- School Energy Coalition (“SEC”)
- Vulnerable Energy Consumers Coalition (“VECC”)

The following intervenor did not participate in the Settlement Conference and is not one of the Parties:

- BOMA

OEB Staff also participated in the Settlement Conference, but in accordance with the Guidelines, is neither a Party nor a signatory to this Settlement Proposal. Although OEB Staff is not a Party to this Settlement Proposal, the OEB Staff who did participate in the Settlement Conference are bound by the same confidentiality standards that apply to the Parties to the proceeding.

Confidentiality

The parties acknowledge that this Settlement Conference is confidential in accordance with the OEB’s Practice Direction on Settlement Conferences. The parties understand that confidentiality in that context does not have the same meaning as confidentiality in the OEB’s Practice Direction on Confidential Filings, and the rules of that latter document do not apply. Instead, in this Settlement Conference, and in this Settlement Proposal, the parties have interpreted “confidential” to mean that the documents and other information provided during the course of the Settlement Conference, the discussion of each issue, the offers and counter-offers, and the negotiations leading to the settlement of each issue during the Settlement Conference are strictly privileged and without prejudice. None of the foregoing is admissible as evidence in this proceeding, or otherwise, with one exception; the need to resolve a subsequent dispute over the interpretation of any provision of this Settlement Proposal. Further, the parties shall not disclose those documents or other information to persons who were not attendees at the Settlement Conference. However, the parties agree that “attendees” is deemed to include, in this context, persons who were not physically in attendance at the Settlement Conference but were; a) any persons or entities that the parties engage to assist them with the Settlement Conference; or b) any persons or entities from whom they seek instructions with respect to the negotiations; in each case provided that any such persons or entities have agreed to be bound by the same confidentiality provisions.

Parameters of the Proposed Settlement

The Parties are pleased to inform the OEB that all Parties have come to a complete agreement on Toronto Hydro's ICM True-up Application.

This Settlement Proposal describes the agreement reached and provides a direct reference to the evidence on the record to date. The Parties consider that evidence sufficient to support the Settlement Proposal and that the quality and detail of the evidence will allow the OEB to make a finding accepting the proposed settlement.

According to the Guidelines (p. 4), the Parties must consider whether a Settlement Proposal should include an appropriate adjustment mechanism for any settled issue that may be affected by external factors. Toronto Hydro and the other Parties who participated in the settlement discussions agree that no adjustment mechanism is necessary.

None of the Parties can withdraw from this Settlement Proposal except in accordance with rule 30.05 of the *Rules of Practice and Procedure*.

This Settlement Proposal has been settled by the Parties as a package and none of the provisions is severable. If the OEB does not accept this package in its entirety, then there is no settlement (unless the parties agree that any portion of the package that the OEB does accept may continue as part of a valid settlement proposal).

In the event the OEB directs the parties to make reasonable efforts to revise the Settlement Proposal, the parties agree to use reasonable efforts to discuss any potential revisions, but no party will be obligated to accept any proposed revision. The parties agree that all of the parties who took a position on a particular issue must agree with any revised Settlement Proposal as it relates to that issue prior to its re-submission to the OEB.

Finally, this Settlement Proposal is without prejudice to the positions Parties might take in other proceedings.

B. TERMS OF SETTLEMENT

Toronto Hydro's capital program related to the ICM period was a large and complex program consisting of multiple jobs categorized into 13 project segments. During the ICM period, circumstances arising during job execution caused jobs (for various project segments) to have budget variances, be added, cancelled, deferred, or only partially completed, which affected the application of the intended true-up. For the purposes of obtaining a complete settlement in this proceeding, the Parties agree that the \$41.2 million in revenue requirement, collected through the Initial ICM Rate Rider pursuant to EB-2012-0064, forms the full and final ICM funding for the ICM period (2012-2014). Accordingly, the Parties agree that the associated ICM variance

accounts established by the OEB in EB-2012-0064 should be closed without any further disposition to or from ratepayers.

In EB-2014-0116, the OEB established a variance account to capture any difference between amounts included in 2015 rate base related to the ICM work undertaken and any disallowance based on prudence in this proceeding. The Parties further agree that this variance account should be closed at a zero balance.

This Settlement Proposal represents a compromise among the Parties. For the purposes of settlement, the Parties agree that the proposal protects the interests of Toronto Hydro, its ratepayers, and shareholder, and promotes regulatory efficiency. There will be no new rate riders and/or rate adjustments resulting from this Settlement Proposal.

Approval

Parties in Support: Toronto Hydro, SEC, AMPCO, CCC, and VECC

Parties Taking No Position: None

Evidence

The evidence in relation to this issue includes the following:

- Toronto Hydro's ICM True-up Application (filed March 8, 2016), which includes:
 - A Requests and Rationale Summary which explains the results of Toronto Hydro's applied for true-up process and the rate adjustments (Exhibit 1, Tab 2, Schedule 2)
 - Results of the applied for true-up process for each project segment that qualified for ICM funding in ICM funding in EB-2012-0064 and supporting evidence (Exhibit 2, Tabs 1-13)
 - A report by Power System Engineering that provides an opinion on the reasonableness of variances in OEB approved project-segments (Exhibit 2, Tab 14)
 - Calculation of the applied for ICM true-up revenue requirement (Exhibit 3, Tabs 1-2)
 - A summary of monthly customer bill impacts for representative customers on a distribution and total bill basis (Exhibit 3, Tab 1, Schedule 1)
- All interrogatory Responses in relation to the foregoing evidence