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July 11, 2019

Via RESS

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

Dear Ms. Walli:

Re: EB File No. EB-2018-0165, Toronto Hydro-Electric System Limited ("Toronto Hydro") Custom Incentive Rate-setting ("Custom IR") Application for 2020-2024 Electricity Distribution Rates and Charges – Responses to Undertakings J6.7, J6.12, J7.5, J7.6 and Correction to J5.6

Please find enclosed Toronto Hydro's responses to all remaining undertakings from Day 6 and Day 7, namely J6.7, J6.12, J7.5 and J7.6.

In addition, Toronto Hydro is filing a minor correction to undertaking J5.6, which was originally filed on July 9, 2019. The original response by error referred to Toronto Hydro's performance on 11 of the 12 asset categories evaluated by the UMS Group in its unit cost benchmarking study, whereas the correct reference should be to 10 of 11 asset categories. The correction is marked by /C in the revised response.

Please contact me directly if you have any questions or concerns.

Respectfully,

Daliana Coban
Manager, Regulatory Law
Toronto Hydro-Electric System Limited

cc: Lawrie Gluck, OEB Case Manager
Michael Miller, OEB Counsel
Parties of Record
Amanda Klein, Toronto Hydro
Andrew Sasso, Toronto Hydro
Charles Keizer, Torys LLP

ORAL HEARING UNDERTAKING RESPONSES TO POWER WORKERS UNION

UNDERTAKING NO. J5.6:

Reference(s):

a) To advise whether it undertakes any benchmarking activities to determine the cost-effectiveness of its third-party service provider, costs in either the OM&A side of the business or the capital side of the business;

b) If there is, to provide it, subject to confidentiality restrictions.

RESPONSE:

Toronto Hydro undertakes a rigorous procurement process for all OM&A and Capital services contracted out as detailed in the Procurement Policy (Exhibit 4A, Tab 3, Schedule 1, Appendix A). Through the competitive procurement process, all bid submissions are assessed using a comprehensive evaluation matrix which is set prior to the Request for Proposal (RFP) or Request for Quote (RFQ) going out to market and includes a detailed cost analysis. The results of the assessment are benchmarked between participants to the procurement process and against any existing contracts to ensure a favourable acquisition cost and the successful respondent's ability to meet or exceed Toronto Hydro's quality, safety and environmental requirements.

Through the application of its procurement strategy, Toronto Hydro has successfully negotiated OM&A and capital contracts which provide an average annual rate increase over the 2015-2018 period that are lower than the average annual increases under the

Construction Labour Inflation and Municipal Infrastructure Construction Price benchmark indices shown in Table 1 to the response to undertaking JTC4.30.2, which is reproduced below for ease of reference.

Table 1: Average Escalation in Third-Party Contractor Unit Prices vs. Inflation

Average Annual Contractor Unit Price Escalation (2015-2018 Actuals)	Average Annual Increase in Construction Labour Inflation Index[1]	Average Annual Increase in Municipal Infrastructure Construction Price Index[2]
1.52%	**2.14%**	**3.21%**

Since 2013, Toronto Hydro has also performed annual benchmarking of internal versus external costs for capital construction projects through the Construction Efficiency metric referenced in Exhibit 1B, Tab 2, Schedule 2. Please refer to Toronto Hydro's responses to undertakings JTC4.18 and JX3.5 for detailed information about the methodology that underpins this metric.

In addition, Toronto Hydro engaged UMS Group to conduct a unit cost benchmarking study which compared average unit costs for major asset classes and maintenance activities. As further detailed in Exhibit 1B, Tab 2, Schedule 1, Section 2.3.2, the results of this study showed that Toronto Hydro is a better than average cost performer on 10 of the 11 asset categories evaluated. /C

[1] 2014-2017 average growth, calculated using data from Statistics Canada, Table 18-10-0051-01 "Construction union wage rates index, monthly, inactive."
[2] 2014-2017 average growth, calculated using data from Statistics Canada, Table 18-10-0022-01, "Infrastructure construction price index, annual."

ORAL HEARING UNDERTAKING RESPONSES TO
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UNDERTAKING NO. J6.7:

Reference(s):

To advise of the years that the requirements have changed, in terms of lift capacity of the derrick trucks and the height capacity of the derrick and the bucket trucks. Also to advise if the capacities have increased, would that be because the size of the poles has increased.

RESPONSE:

Over the last 10 years, neither derrick trucks nor bucket trucks have changed significantly in terms of specification, height or capacity. As part of Toronto Hydro's Fleet and Equipment Services capital program (Exhibit 2B, Section E8.3), vehicle specifications are reviewed prior to the vehicle procurement process to ensure alignment with work execution requirements.

ORAL HEARING UNDERTAKING RESPONSES TO VULNERABLE ENERGY CONSUMERS COALITION

UNDERTAKING NO. J6.12:

Reference(s):

a) How does the PILs get calculated?

b) Then the second question is, is that how is the tax implications of the capital program actually calculated?

RESPONSE:

The PILs expense that forms part of the capital related revenue requirement calculation underlying the C-Factor in the Custom Price Cap Index is calculated using the methodology consistent with the principles set out in Chapter 2 of the OEB's Filing Requirements, as noted in Exhibit 4B, Tab 2, Schedule 1. Specifically, Toronto Hydro analyzes the nature of the assets resulting from the forecasted capital expenditures (i.e. the forecasted in service assets) to determine the appropriate capital cost allowance classes for tax purposes. Toronto Hydro's response to interrogatory U-Staff-188, Table 1 provides the updated PILs amounts that form part of the capital related revenue requirement calculation underlying the C-Factor. Appendices A and B to that response outline the detailed calculations underlying the PILs, including the capital cost allowance applied.

ORAL HEARING UNDERTAKING RESPONSES TO SCHOOL ENERGY COALITION

UNDERTAKING NO. J7.5:

Reference(s):

To provide the satisfaction survey results or its location in the evidence.

RESPONSE:

Toronto Hydro reports on Customer Satisfaction Survey results as part of its Electricity Distributor Scorecard, in accordance with the OEB's Report on Performance Measurement for Electricity Distributors dated March 5, 2014 (EB-2010-0379).

Toronto Hydro first reported its customer satisfaction survey result on the Scorecard in 2014 through a composite index of individual satisfaction scores from multiple categories including price, service quality and reliability. For 2016, Toronto Hydro adopted a survey methodology used by Innovative Research Group and the Electricity Distributors Association. Based on the survey activities undertaken in December 2016, Toronto Hydro achieved a residential customer satisfaction ("CSAT") score of 85 percent and an overall score of 83 percent. Both these results surpassed the provincial average at the time of 79 percent. The 2016 result cannot be compared to the 2014 results because the two surveys are based on different methodologies including differences in scoring scales, structure of questions and overall scoring index versus a single score.

Please refer to Exhibit 1B, Tab 2, Schedule 2, Section 1.6 for more information regarding this measure and to Exhibit U, Tab 1B, Schedule 1, Table 1 for the most recent results.

ORAL HEARING UNDERTAKING RESPONSES TO SCHOOL ENERGY COALITION

UNDERTAKING NO. J7.6:

Reference(s):

To explain the derivation of the productivity analysis.

RESPONSE:

Toronto Hydro reviewed the transcript and believes this undertaking is intended to address why the utility did not undertake a study to determine a custom productivity factor for Toronto Hydro.

In its previous rate application (EB-2014-0116), Toronto Hydro adopted the principles of the RRF and proposed a custom rate-setting index that included a capital factor. Toronto Hydro also filed a total cost benchmarking study by Power System Engineering ("PSE") that included targeted modifications to the variables within the OEB expert's benchmarking model while adhering to the expert's general approach. This study was filed in support of a proposed stretch factor. Toronto Hydro did not propose an alternative productivity factor. This approach was consistent with the OEB's policy for rate-setting under the RRF, which established that benefits sharing in respect of the productivity factor would be set on an industry-wide basis for all rate-setting options using the Board's methodology, while the other components of benefits sharing would be evaluated on a case-by-case basis for Custom IR filers.[1]

In its decision in EB-2014-0116, the OEB concluded that "Toronto Hydro's rate framework is structured in such a way as to support the achievement of RRFE objectives."[2] Toronto Hydro's approach to its current and previous[3] application has been to adopt the OEB's policy and standard approaches wherever possible, and to only depart – i.e. customize – where required to reconcile the utility's needs and unique business conditions within the existing incentive framework. Toronto Hydro continues to believe that the OEB's total factor productivity approach would not benefit from utility-specific customization.

[1] Ontario Energy Board, Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach, (October 18, 2012), Table 1 at page 13.
[2] EB-2014-0116, Toronto Hydro-Electric System Limited Decision and Order (December 29, 2015) at page 2.
[3] EB-2014-0116, Toronto Hydro-Electric System Limited Argument in Chief (March 19, 2015), Tab 4 – RRFE Compliance at page 1.