

**Daliana Coban**

Director, Regulatory Applications  
and Business Support  
Toronto Hydro-Electric System Limited  
14 Carlton Street  
Toronto, ON M5B 1K5

Telephone: 416.542.2627  
Facsimile: 416.542.3024

[regulatoryaffairs@torontohydro.com](mailto:regulatoryaffairs@torontohydro.com)  
[www.torontohydro.com](http://www.torontohydro.com)



February 12, 2020

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-2018-0165, Toronto Hydro-Electric System Limited (“Toronto Hydro”), 2020-2024 Custom Incentive Rate-setting (“Custom IR”) Application – DRO Reply Submission & DRO Update**

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Please find enclosed Toronto Hydro’s Reply Submission to comments on the Draft Rate Order (“DRO”) and an updated DRO as noted in its January 21 and 28 letters. Physical copies will follow via courier.

The updated DRO reflects the Allowance for Funds Used During Construction (“AFUDC”) adjustment, as well as updated principal balances for three Group 2 accounts to reflect the most up-to-date year-end financial information consistent with the OEB’s Decision. Toronto Hydro notes that the changes to the updated balances are not significant and that the net result is a higher credit to customers.

As requested by the OEB’s letter dated February 5, 2020 Toronto Hydro included in the updated DRO the draft Tariffs for the unsmoothed option. In addition, in response to OEB Staff’s comments, Toronto Hydro updated the Group 2 DVA balances to include estimated carrying charges until the proposed disposition of the account.

For ease of reference, the updates to the DRO are summarized in Appendix A to this letter and are marked by /C in the attached DRO narrative.

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

Respectfully,

A handwritten signature in blue ink, appearing to read "Daliana Coban", written over a horizontal line.

**Daliana Coban**

Director, Regulatory Applications and Business Support  
Toronto Hydro-Electric System Limited

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

## Appendix A: List of Updates

	Topic	Update	Numerical Differences					
1	<b>Taxes and Payment in Lieu of Taxes (PILs)</b>  Reference: Table 5 on page 7	Updated amounts resulting from the AFUDC adjustment.	<b>Table 5: Estimated PILs Impact of Bill C-97 (\$ Millions)</b>					
				2020	2021	2022	2023	2024
			Estimated Updated PILs following the old CCA rules (see Schedule 10-1)	26.4	30.0	27.5	<del>32.3</del> 32.2	<del>37.9</del> 37.8
			Estimated decrease in Updated PILs following the new accelerated CCA rules	(16.7)	(10.8)	<del>(17.1)</del> (17.2)	(7.4)	(1.7)
			<b>Estimated Updated PILs following new accelerated CCA rules (see Schedule 10-2)</b>	<b>9.7</b>	<b>19.2</b>	<b>10.4</b> <b>10.3</b>	<b>24.9</b> <b>24.8</b>	<b>36.2</b> <b>36.1</b>
2	<b>2020 Revenue Requirement</b>  Reference: Table 6 on page 9	Updated amounts resulting from the AFUDC adjustment.	<b>Table 6: 2020 Revenue Requirement (\$ Millions)</b>					
				Proposed	Adjustments	Approved		
			Return on Equity	162.0	(8.1)	153.9		
			Deemed Interest Expense	100.2	(1.6)	98.6		
			Depreciation Expense	265.5	(1.8)	263.7		
			PILs	12.7	(3.0)	9.7		
			<b>Capital Related Revenue Requirement</b>	<b>540.5</b>	<del>(14.6)</del> (14.7)	<b>525.9 525.8</b>		
			OM&A (including property taxes)	278.0	(5.6)	272.2		
			Revenue Offsets	(47.1)	(0.7)	(47.8)		
			<b>Non-Capital Revenue Requirement</b>	<b>230.9</b>	<b>(6.5)</b>	<b>224.4</b>		
			<b>Base Revenue Requirement</b>	<b>771.4</b>	<del>(21.1)</del> (21.2)	<b>750.3 750.2</b>		
3	<b>2020-2024 Revenue Requirement Components</b>  Reference: Table 7 on page 10	Updated amounts resulting from the AFUDC adjustment.	<b>Table 7: 2020-2024 Revenue Requirement Components (\$ Millions)</b>					
				2020	2021	2022	2023	2024
			Rate Base	<del>4,515.1</del> 4,514.8	<del>4,736.3</del> 4,735.7	<del>4,932.9</del> 4,931.9	<del>5,229.5</del> 5,227.9	<del>5,477.2</del> 5,474.2
			Return on Equity	153.9	161.4	168.1	178.2	186.7
			Deemed Interest Expense	98.6	103.4	107.7	114.2	119.6
			Depreciation Expense	263.7	279.1	289.3	<del>310.2</del> 310.1	<del>322.8</del> 322.6
			<i>Depreciation</i>	239.2	253.6	263.8	283.4	<del>295.5</del> 295.4
			<i>Derecognition</i>	24.5	25.5	25.5	<del>26.8</del> 26.7	27.2
			PILs	9.7	19.2	<del>10.4</del> 10.3	<del>24.9</del> 24.8	<del>36.2</del> 6.1
			<b>Capital-Related RR</b>	<b>525.9 525.8</b>	<b>563.2 563.1</b>	<b>575.5 575.4</b>	<b>627.5 627.2</b>	<b>665.3 664.8</b>
			OM&A Expenses	272.2	276.0	279.9	283.8	287.8
			Revenue Offsets	(47.8)	(48.4)	(49.1)	(49.8)	(50.5)
			<b>Non-Capital RR</b>	<b>224.4</b>	<b>227.6</b>	<b>230.8</b>	<b>234.0</b>	<b>237.3</b>
			<b>Base RR</b>	<b>750.3 750.2</b>	<b>790.8 790.6</b>	<b>806.3 806.1</b>	<b>861.5 861.2</b>	<b>902.5 902.1</b>

	Topic	Update	Numerical Differences																								
4	<b>CPCI Components</b>  Reference: Table 8 at page 11	Updated values resulting from the AFUDC adjustment.	<p align="center"><b>Table 8: 2021-2024 CPCI Components</b></p> <table border="1"> <thead> <tr> <th>CPCI Components</th> <th>2021</th> <th>2022</th> <th>2023</th> <th>2024</th> </tr> </thead> <tbody> <tr> <td>C<sub>n</sub></td> <td>4.97%</td> <td>1.56%</td> <td><del>6.45%</del> 6.43%</td> <td><del>4.38%</del> 4.36%</td> </tr> <tr> <td>S<sub>cap</sub></td> <td>71.22%</td> <td>71.38%</td> <td><del>72.84%</del> 72.83%</td> <td><del>73.71%</del> 73.70%</td> </tr> <tr> <td><b>CPCI</b></td> <td><b>4.53%</b></td> <td><b>1.12%</b></td> <td><del><b>5.97%</b></del> 5.95%</td> <td><del><b>3.88%</b></del> 3.86%</td> </tr> </tbody> </table>	CPCI Components	2021	2022	2023	2024	C <sub>n</sub>	4.97%	1.56%	<del>6.45%</del> 6.43%	<del>4.38%</del> 4.36%	S <sub>cap</sub>	71.22%	71.38%	<del>72.84%</del> 72.83%	<del>73.71%</del> 73.70%	<b>CPCI</b>	<b>4.53%</b>	<b>1.12%</b>	<del><b>5.97%</b></del> 5.95%	<del><b>3.88%</b></del> 3.86%				
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5	<b>Group 2 Deferral and Variance Account Balances</b>  Reference: Table 10 at page 13	Revised Table 10 to reflect updated CRRRVA, Derecognition and PILS and Tax Variances – CCA Changes balances.	<p align="center"><b>Table 10: Updated Group 2 Deferral and Variance Account Balances (\$ Millions)</b></p> <table border="1"> <thead> <tr> <th></th> <th>Principal Balances</th> <th>Carrying Charges to Feb 29, 2020</th> <th>Total Balance, including carrying charges</th> </tr> </thead> <tbody> <tr> <td>CRRRVA</td> <td><del>(72.3)</del> (74.7)</td> <td><del>(2.5)</del> (2.6)</td> <td><del>(74.8)</del> (77.2)</td> </tr> <tr> <td>Derecognition</td> <td><del>(33.1)</del> (31.4)</td> <td><del>(1.5)</del> (1.5)</td> <td><del>(34.6)</del> (32.9)</td> </tr> <tr> <td>PILs and Tax Variances – CCA Changes</td> <td><del>(8.8)</del> (10.9)</td> <td><del>(0.1)</del> (0.1)</td> <td><del>(8.8)</del> (10.9)</td> </tr> <tr> <td><b>Total Group 2 Balance</b></td> <td><del><b>(168.2)</b></del> (170.9)</td> <td><del><b>(5.7)</b></del> (5.8)</td> <td><del><b>(173.9)</b></del> (176.6)</td> </tr> <tr> <td><b>Total Group 2 and Other Amounts</b></td> <td><del><b>(193.2)</b></del> (195.8)</td> <td><del><b>(6.8)</b></del> (6.9)</td> <td><del><b>(200.0)</b></del> (202.7)</td> </tr> </tbody> </table>		Principal Balances	Carrying Charges to Feb 29, 2020	Total Balance, including carrying charges	CRRRVA	<del>(72.3)</del> (74.7)	<del>(2.5)</del> (2.6)	<del>(74.8)</del> (77.2)	Derecognition	<del>(33.1)</del> (31.4)	<del>(1.5)</del> (1.5)	<del>(34.6)</del> (32.9)	PILs and Tax Variances – CCA Changes	<del>(8.8)</del> (10.9)	<del>(0.1)</del> (0.1)	<del>(8.8)</del> (10.9)	<b>Total Group 2 Balance</b>	<del><b>(168.2)</b></del> (170.9)	<del><b>(5.7)</b></del> (5.8)	<del><b>(173.9)</b></del> (176.6)	<b>Total Group 2 and Other Amounts</b>	<del><b>(193.2)</b></del> (195.8)	<del><b>(6.8)</b></del> (6.9)	<del><b>(200.0)</b></del> (202.7)
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6	<b>Rate Riders – Deferral and Variance Account Clearance</b>  Reference: pages 19-20.	Revised Table 13 to reflect the updated balances above and include estimated carrying charges for the accounts to be cleared after March 1, 2020. Updated narrative accordingly.	<p>Due to the size and number of the Deferral and Variance Account Clearance table, the numerical differences cannot be summarized for the purpose of this table. The header row has been provided for reference. Please refer to the updated tables.</p> <p align="center"><b>Table 13: Deferral and Variance Account Clearance</b></p> <table border="1"> <thead> <tr> <th></th> <th>Clearance Start Date</th> <th>Clearance End Date</th> <th>Clearance Amount as at March 1, 2020 (\$ Millions)</th> <th>Carrying Charges from March 1, 2020 to Clearance Start Date</th> <th>Total Balance at Clearance (\$ Millions)</th> </tr> </thead> <tbody> </tbody> </table>		Clearance Start Date	Clearance End Date	Clearance Amount as at March 1, 2020 (\$ Millions)	Carrying Charges from March 1, 2020 to Clearance Start Date	Total Balance at Clearance (\$ Millions)																		
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7	<b>Rates Smoothed Bill Scenarios</b>  Reference: Table 14 series	Revised rate smoothing tables to reflect the updates mentioned above.	Due to the size and number of the Rates Smoothed Bill Scenarios tables, the numerical differences cannot be summarized for the purpose of this table. Please refer to the updated tables.																								
8	<b>Bill Impacts</b>  Reference: Table 15 at page 30	Revised bill impacts to reflect the updates mentioned above.	Due to the size of the Bill Impacts – Change in Monthly Bill table, the numerical differences cannot be summarized for the purpose of this table. Please refer to the updated tables.																								
9	<b>Tariff Sheets</b>  Reference: pages 31 and 32	Added reference to the draft Tariff of Rates and Charges for the unsmoothed option.	N/A																								