Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

September 3, 2024

Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4
Registrar@oeb.ca

Dear Ms. Marconi:

Re: Toronto Hydro-Electric System Limited (Toronto Hydro)
2025-2029 Custom Rate Application for Electricity Distribution Rates
Ontario Energy Board (OEB) File Number: EB-2023-0195

Pursuant to Procedural Order No. 7, this is OEB staff's submission on the settlement proposal filed by Toronto Hydro related to its 2025-2029 Custom Rate Application.

Yours truly,

Thomas Eminowicz
Digitally signed by Thomas Eminowicz
Date: 2024.09.03 14:41:46 -04'00'

Thomas Eminowicz
Senior Advisor

Encl.
cc: All parties in EB-2023-0195

ONTARIO ENERGY BOARD

OEB Staff Submission

Toronto Hydro-Electric System Limited

2025-2029 Custom Rate Application for Electricity Distribution Rates

EB-2023-0195

September 3, 2024

Application Summary

In accordance with Procedural Order No. 1, a settlement conference for Toronto Hydro's Custom Rate Application for Electricity Distribution Rates (the Application) commenced on May 27, 2024. Toronto Hydro and the intervenors[1] participated in the settlement conference (collectively, the Parties). These intervenors were: the Association of Major Power Consumers in Ontario, the Building Owners and Managers Association, the Coalition of Concerned Manufacturers and Businesses of Canada, Consumers Council of Canada, the Distributed Resource Coalition, Energy Probe Research Foundation, Environmental Defence, Pollution Probe, the Power Worker's Union, the School Energy Coalition, and the Vulnerable Energy Consumers Coalition. OEB staff also attended the settlement conference; however, OEB staff is not a party to the settlement proposal. On July 4, 2024, OEB staff informed the OEB that the Parties had reached a tentative substantial settlement with one fully unresolved issue: Issue 2.4.[2]

Toronto Hydro filed a settlement proposal on August 16, 2024 (the Settlement Proposal). The issue of the Innovation Fund is not part of the Settlement Proposal. Additionally, the Settlement Proposal includes a partial settlement on Issues 1.3, 1.4, 9,1, and 10.2 due to their relation to the Innovation Fund. The scope of the Settlement Proposal is sufficient to set Toronto Hydro's 2025 electricity distribution rates and the framework for those rates for 2026 to 2029.

While a participant in the settlement conference, the Power Workers' Union takes no position on the Settlement Proposal and Environmental Defence takes no position on two issues.

If the Settlement Proposal is approved, a typical residential customer with a monthly consumption of 750 kWh would see a total bill increase of $3.40 (2.4%) and a general service under 50 kWh customer with a monthly consumption of 2,000 kWh would see a total bill increase of $7.58 (1.9%) for 2025.[3]

If the OEB accepts the Settlement Proposal, the Innovation Fund proposal, with its proposed rate rider and variance account, will need to be addressed by a hearing. The

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[1] Two approved intervenors in the proceeding did not participate in the Settlement Conference: Enbridge Gas Inc. and the Independent Electricity System Operator.
[2] Issue 2.4 Is the proposed Innovation Fund Appropriate?
[3] Settlement Proposal, Table 1

Parties did not include a proposal regarding the type of hearing as part of the Settlement Proposal.

General Comments on the Settlement Proposal

In the preamble to the Settlement Proposal, "the Parties explicitly request that the OEB consider and accept this Settlement Proposal as a package" stating that "numerous compromises were made by the Parties with respect to various matters to arrive at this Settlement Proposal."[4] In OEB staff's view, this is a reasonable request. It is also OEB staff's view that the Settlement Proposal provides sufficient explanation as to why the agreed upon resolutions to the issues in the proposal are appropriate. Additionally, OEB staff notes that 11 intervenors actively participated in the settlement conference, representing a wide range of perspectives.

In the following tables, OEB staff will provide an overview of the impacts of the Settlement Proposal relative Toronto Hydro's originally filed application.[5] OEB staff notes that, in addition to material reductions to the opening rate base, capital expenditure, and OM&A budgets, the Settlement Proposal includes a custom rate-setting framework that is aligned with the current 2020-2024 rate-setting framework.

Table 1: 2025-2029 Settled Rate Base ($ Millions)[6]

	2025	2026	2027	2028	2029
Proposed Rate Base	5,899.1	6,279.3	6,703.2	7,162.0	7,590.1
Settled Rate Base	**5,879.7**	**6,213.1**	**6,576.1**	**6,967.6**	**7,327.9**
Difference	(19.4)	(66.2)	(127.1)	(194.4)	(262.2)

The reduction in 2025 rate base includes an $8 million reduction to 2025 net fixed assets due to a capital underspend in 2024 for AMI 2.0 program and a further $11.4 million reduction as a direct result of the agreed upon capital expenditure reductions.[7]

Historical in-service additions drive 2025 opening net fixed assets. Throughout the proceeding, Toronto Hydro stated that its Distribution System Plan (DSP) is "not a

[4] Settlement Proposal, p. 6
[5] The proposed amounts in the following tables reflect the best available information at the time of filing the Settlement Proposal. Some elements of the future revenue requirements are subject to future proceedings and decisions by the OEB, such as the generic proceeding on Cost of Capital and Other Matters, EB-2024-0063, and future OEB determinations regarding the application inflation rates.
[6] Settlement Proposal, Table 7
[7] Settlement Proposal, p. 18

project-based DSP."[8] With some exceptions, the majority of Toronto Hydro's previous DSP is also program-based. Due to the programmatic nature of that DSP, OEB staff cannot ascertain if the scopes and volumes of work from the previous plan that the OEB approved have been achieved with the expenditures made.

All distributors experience changing circumstances and are expected to prudently readjust their capital plans. The filed application describes the challenges that Toronto Hydro has faced in the historical period. Due to the programmatic nature of Toronto Hydro's last DSP, OEB staff cannot comment on the reasonableness of Toronto Hydro's changes to the capital plans in reaction to changing circumstances over the historical period. OEB staff notes that Toronto Hydro did meet a majority of its targets in the OEB scorecard.[9] OEB staff also notes that Toronto Hydro has maintained assets in good condition.[10] Overall, OEB staff has no objections to the 2025 opening net fixed assets. OEB staff considers the 2025-2029 rate base amounts to be reasonable.

Table 2 - 2025-2029 Settled Capital Expenditures ($ Millions)[11]

	2025	2026	2027	2028	2029
Proposed Capital Expenditures	728.5	757.1	814.5	823.7	804.8
Settled Capital Expenditures	**662.4**	**689.4**	**741.0**	**747.5**	**728.3**
Difference	(66.1)	(67.7)	(73.5)	(76.3)	(76.5)

The Settlement Proposal's 2025 net capital expenditures of $662.4 million is an increase of $214.3 million from the 2020 actual net capital expenditures of $448.1 million, a 48% increase or 8% increase compounded annually.[12] This marked increase accounts for both inflation and expanded scope of the capital programs. In the current rate period, Toronto Hydro has met the majority of OEB scorecard targets and maintained system wide reliability performance and asset conditions. OEB staff's view is that the level of 2025-2029 capital expenditures and in-service additions arising from the

[8] Technical Conference, April 8, 2024, Transcript, p. 65
[9] Toronto Hydro-Electric System Limited 2022 Scorecard The targets for *Serious Electrical Incent Index* and *Average Number of Times that Power to a Customer is Interrupted* were exceeded.
[10] The Asset Condition Assessment (Exhibit 2B, Section D3, Appendix A) shows the majority of Toronto Hydro's distribution assets have been evaluated as being in health index (HI) categories HI1 (new or good condition) or HI2 (minor deterioration, in serviceable condition).
[11] Settlement Proposal, Table 8
[12] Exhibit 2B, Section E4, Appendix A

Distribution System Plan are reasonable.

Table 3 - 2025-2029 Settled Operations, Maintenance, and Administrative Expenses ($ Millions)[13]

	2025	2026	2027	2028	2029
Proposed OM&A Expenditures	343.0	358.0	370.2	385.5	399.6
Settled OM&A Expenditures	**323.5**	**331.3**	**339.3**	**347.5**	**355.8**
Difference	(19.5)	(26.7)	(30.9)	(38.0)	(43.8)

The Settlement Proposal's 2025 OM&A expenses of $323.5 million is a $56.4 million increase from Toronto Hydro's 2020 actual OM&A expenses, excluding additional COVID expenses.[14] This is a 21% increase, or 4.0% compounded annually. OEB staff notes that the historical OM&A expenditures were in line with the 2020 OEB approved budget. OEB staff also notes that this was achieved despite significantly lower employee levels compared to those that underpinned the OEB approved plan. OEB staff agrees with the Parties that the OM&A envelope in the Settlement Proposal is reasonable.

Table 4 - 2025-2029 Settled Revenue Requirement ($ Millions)[15]

	2025	2026	2027	2028	2029
Proposed Revenue Requirement	977.8	1,023.6	1,061.3	1,151.6	1,186.3
Settled Revenue Requirement	**951.8**	**986.3**	**1,012.6**	**1,086.9**	**1,109.1**
Difference	(26.0)	(37.3)	(48.8)	(64.7)	(77.2)

The reduced revenue requirement in the Settlement Proposal reflects the agreed upon reductions in rate base, capital expenditures, and OM&A envelope. The Settlement Proposal also includes the implementation of the filed depreciation study.[16]

The Parties agreed that Toronto Hydro will implement the outcomes of the OEB's

[13] Settlement Proposal, Table 12
[14] Exhibit 4, Tab 1, Schedule 3, OEB Appendix 2-JB
[15] Settlement Proposal, Table 2
[16] Exhibit 2A, Tab 2, Schedule 1, Appendix D – Depreciation Study

generic proceeding on Cost of Capital and Other Matters, EB-2024-0063. OEB staff is of the view that this is appropriate. In the OEB's July 26, 2024 Letter and Accounting Order (EB-2024-0063), the OEB approved the establishment of a generic variance account for electricity distributors to capture certain revenue requirement impacts related to the Deemed Short-Term Debt Rate (DSTDR). It is OEB staff's expectation that Toronto Hydro shall establish and record entries in the generic variance account, given that Parties agreed to Toronto Hydro implementing the DSTDR in accordance with the direction set out in the OEB's Letter and Accounting Order.

The Parties accepted Toronto Hydro's proposal that the accelerated capital cost allowance (CCA) rules introduced by Bill C-97 were applied in the Payments in Lieu of Taxes (PILs) models, and that the maximum accelerated CCA was claimed for 2025 through 2029.[17] The Parties agreed that Account 1592, PILs and Tax Variances, Sub-account CCA Changes, will only track the impact of further changes to the CCA rules, beyond those contemplated in this proceeding.[18] Furthermore, for those programs subject to the below Demand Related Capital Variance Account (DRCVA), the DRVCA will capture the PILs impact from the difference between actual and forecast capital expenditures, subject to the account's deadband. By claiming the maximum accelerated CCA for 2025 through 2029, OEB staff is of the view that this is a type of smoothing proposal, as it reflects maximum accelerated CCA over the rate term, but based on forecasted capital additions, as opposed to actual capital additions. The OEB permits smoothing mechanisms.[19]

OEB staff notes that the PILs provisions will be updated in the draft rate order process when the 2025 cost of capital parameters are updated. Additionally, OEB staff has no concerns regarding the calculation of Toronto Hydro's Revenue Requirement.

In addition to reductions in revenue requirement, the Settlement Proposal also presents notable changes to the custom rate-setting framework from what was originally filed. While the Custom Revenue Cap Index (CRCI) is nominally maintained, the Settlement Proposal presents material changes to its sub-components.

[17] Interrogatory Response 6-Staff-322
[18] Settlement Proposal, p. 46
[19] Pages 41 and 42 of the OEB's Chapter 2 Filing Requirements permit mechanisms to smooth the tax impacts over a rate term. Specifically, if the OEB approves a smoothing proposal, the distributor's use of (or access to) Account 1592, to record the impacts of the specific CCA changes contemplated in the smoothing proposal, will no longer be applicable.

Table 5: Settled Custom Rate-Setting Framework[20]

	As Filed	Settlement Proposal
Custom Index (CRCI)	I - X + RGF	
I: Inflation	Set annually in accordance with the OEB's inflation parameters for electricity distributors for each applicable rate year	
X: Productivity Factor	0%	
X: Efficiency Factor	0.15%	0.6%
X: Performance Incentive Mechanism Factor	Incremental 0.6% with earn-back mechanism	None
RGF: Revenue Growth Factor	Inflation-normalized incremental revenue to fund forecasted capital and operational expenditures	Inflation normalized factor that provides: Incremental forecast capital funding less the below incremental capital stretch factor And Incremental operational expenditures derived using the growth factor
Incremental Capital Stretch Factor, Sub-component of the Revenue Growth Factor	None	0.3% reduction on capital-related revenue requirement
Growth Factor, Sub-component of the Revenue Growth Factor	None	0.41% index applied to operational expenditures

Through the Settlement Proposal, the Parties have agreed to eliminate the proposed

[20] Settlement Proposal, Table 3

Performance Incentive Mechanism and the related custom scorecard in lieu of a higher than proposed efficiency factor and an incremental stretch factor on capital.[21] OEB staff does not oppose the Settlement Proposal's rate-setting framework, as it is consistent with the current rate-setting framework established by EB-2018-0165.

Additionally, the Settlement Proposal's rate-setting framework presents a growth factor for indexing OM&A expenses. This factor is incorporated into the Revenue Growth Factor. The growth factor is informed by forecast customer and peak demand growth.[22] OEB staff supports a growth factor as a basis to index OM&A revenue and notes the expert evidence filed by Pacific Economics Group Research LLC identifies that there are many precedents for this approach.[23]

The agreed upon framework will annually adjust the Inflation Factor while the X Factor and the RGF values will not be subject to annual updates. The table below summarizes these three factors showing the proposed and settled values. Table 4 of the Settlement Proposal details the calculation of the RGF, demonstrating how the incremental capital and growth factors are applied.

Table 6: Settled Custom Revenue Cap Index Components[24]

Component	2026		2027		2028		2029	
	Proposed	Settled	Proposed	Settled	Proposed	Settled	Proposed	Settled
Inflation Factor (I)	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
X Factor (X)	(0.75%)	(0.60%)	(0.75%)	(0.60%)	(0.75%)	(0.60%)	(0.75%)	(0.60%)
Revenue Growth Factor (RGF)	3.44%	2.23%	2.43%	1.26%	7.26%	5.94%	1.76%	0.64%
Custom Revenue Cap Index Total	**4.69%**	**3.63%**	**3.68%**	**2.66%**	**8.51%**	**7.34%**	**3.01%**	**2.04%**

The Parties agreed that Toronto Hydro would implement the CRCI by a comparison of revenue deficiency determined by applying the prior year's rates to the present year's forecast billing determinants. This would yield the escalation for the rates. Further, the Parties agreed to maintain the fixed-variable split except where this would result in an increased fixed charge above the limit from the cost allocation model. The fixed charge

[21] Settlement Proposal, p. 35
[22] Settlement Proposal, p. 43
[23] EB-2023-0195, *CIR 2.0 for Toronto Hydro-Electric System Limited,* May 2024, p. 8
[24] Settlement Proposal, Table 5

limit would be maintained by escalating the variable rate.[25]

Regarding cost allocation, the Parties agreed to three changes from the original proposal. While methodological changes to the CSMUR rate class would be deferred to the next rebasing, a range of 80% to 120% for cost allocation would be applied, instead of the proposed 100%. The OEB's standard 85% to 115% range would apply to the residential class, instead of the proposed 100%. When adjusting the revenue-to-cost ratios for a class that is outside the deadband, those classes outside the boundary would be moved to the nearest boundary range. The resulting shortfall would then be assigned to the class with the lowest ratio until it is increased to match the class with the second lowest ratio. Then the two classes would be increased together until the ratio is increased to that of the third lowest ratio and so forth.[26]

OEB staff submits that this is appropriate. It is customary to apply a range of revenue-to-cost ratios as cost allocation requires approximation on the basis of estimation and expert judgement. OEB staff looks forward to the CSMUR cost allocation study agreed upon by the Parties for the next re-basing application.[27] OEB staff has no concerns with the cost allocation methodology or the resultant revenue-to-cost ratios of the Settlement Proposal.

The following table shows the settled customer and load growth forecast.

Table 7: Settled 2025-2029 Customer and Load Growth[28]

Year		Total Normalized GWh[1]	Total Normalized GWh (% Change)	Total Normalized MVA	Total Normalized MVA (% Change)	Total Customers
2025	Proposed	23,412.8	-0.8%	36,167.8	-1.5%	800,430
	Settled	23,557.7	-0.4%	36,382.7	-1.3%	800,430
2026	Proposed	23,433.6	0.1%	35,949.7	-0.6%	803,655
	Settled	23,653.9	0.4%	36,234.4	-0.4%	803,655
2027	Proposed	23,431.4	0.0%	35,648.1	-0.8%	806,407
	Settled	23,721.8	0.3%	36,036.4	-0.5%	806,504

[25] Settlement Proposal, p. 30
[26] Settlement Proposal, p. 29
[27] Ibid.
[28] Settlement Proposal, Table 14

Year		Total Normalized GWh[1]	Total Normalized GWh (% Change)	Total Normalized MVA	Total Normalized MVA (% Change)	Total Customers
2028	Proposed	23,525.0	0.4%	35,489.2	-0.4%	808,736
	Settled	23,893.7	0.7%	35,981.4	-0.2%	809,196
2029	Proposed	23,393.8	-0.6%	34,964.1	-1.5%	811,363
	Settled	23,838.0	-0.2%	35,552.9	-1.2%	812,371

The Parties agreed to amend the customer connection forecast for the CSMUR rate class to reflect the forecasted customer additions from 2025 to 2026. This was also reflected in an increased load forecast for this class.[29] OEB staff has no concerns with the use of the 2025-2026 CSMUR growth as the basis for forecasting 2026-2029 growth. While some rate classes such as residential and general service classes under 1,000 kW were forecasted using regression methodology, CSMUR and larger volume classes were forecasted using knowledge of upcoming developments and expert judgement. CSMUR had historically been the largest source of growth for Toronto Hydro, and the initial forecast projected a decreasing growth. As a result of this change, its growth is forecasted to stabilize at 2025-2026 levels.

The Parties also agreed that Toronto Hydro will amend the load forecast to incorporate annual adjustments as proposed in the evidence filed by BOMA to account for building electrification.[30] OEB staff has no concerns with these adjustments.

Finally, OEB staff notes several new variance accounts form part of the Settlement Proposal. Where Toronto Hydro proposed a symmetrical variance account to capture the weather-normalized revenue variances by rate class, the Parties have agreed to an asymmetrical variance account that will credit back to customers weather-normalized net revenue variances above those of this application. This new variance account is termed the Revenue Variance Account (RVA). The Parties agreed that Toronto Hydro will annually seek interim disposition of any credit balances in this account so that these balances can be expeditiously returned to customers.[31]

Where Toronto Hydro proposed a symmetrical variance account for demand related expenditures, the Parties have agreed to two variance accounts. The Demand Related

[29] Settlement Proposal, pp. 22-23
[30] Ibid.
[31] Settlement Proposal, p. 27

Capital Variance Account will symmetrically capture the revenue requirement variances associated with certain demand related programs. This account also includes a symmetrical 15% global deadband.[32] The Parties also agreed to a Non-Wires Solutions Operation Expenditures variance account to capture operational expenditure variances specific to the non-wires Local Demand Response initiative as part of the Asset and Program Management program.[33]

Finally, the Parties agreed to a new deferral and variance account under Account 1508 for transitional cloud computing amounts for 2026 through 2029.[34] The account would record variances between the cloud computing solutions operational expenditure amounts recovered through base rates and actual cloud computing solutions operational expenditures.

For clarity, this utility specific account, while not the same as the generic OEB Deferral Account to record Incremental Cloud Computing Implementation Costs (Accounting Order 003-2023), will be used in place of the generic account until the next rebasing application. The account has been agreed to in the context of Toronto Hydro's unique multi-year investment plan to transition to cloud computing solutions and the broader settlement of all revenue requirement issues. OEB staff submits that the establishment of the account is appropriate in the context of settlement.

In the context of a comprehensive Settlement Proposal, OEB staff supports these new revenue and expense related variance accounts.

Additional Comments on Certain Specific Aspects of the Settlement Proposal

OEB staff has examined and supports the Settlement Proposal as a whole. With respect to the proceeding, OEB staff notes the significant volume of the evidentiary record and the complexity of the filed application. In Toronto Hydro's previous custom rate-setting proceeding, the OEB encouraged Toronto Hydro to "consider an alternative approach in the future that might be more efficient in establishing the revenue requirement for the base year and following years as well as meeting OEB RRF objectives, and improving the balance of risk between customers and the utility."[35] OEB staff notes that there may

[32] Settlement Proposal, p. 27
[33] Ibid.
[34] Settlement Proposal, p. 28
[35] Decision and Order, EB-2018-0165, p. 24

be opportunities to improve efficiencies by improving certain aspects of the pre-filed evidence. There are several aspects to the current proceeding and Settlement Proposal where additional comments may assist Toronto Hydro in preparing subsequent applications to the OEB.

First, OEB staff notes that Toronto Hydro presented an "IRM Scenario" in identifying the need for a Custom Incentive Rate-Setting (CIR) Framework.[36] Interrogatories were required to identify that the funding available through the OEB's incremental capital modules (ICMs) were not presented in this scenario.[37] Further undertakings were required to complete the evidentiary record as it related to Toronto Hydro's funding under a more traditional IRM/ICM framework and the current CIR framework for the future rate period.[38] The OEB has previously noted the benefits of a cogent IRM scenario and supporting evidence when seeking a custom rate-setting framework.[39] [40] OEB staff believes efficiencies would be gained with complete scenarios being included in the pre-filed evidence for future applications.

OEB staff also notes several schedules supporting the Settlement Proposal that are based on interrogatory and undertaking responses.[41] OEB staff is confident that there are efficiencies to be gained by providing these schedules with actual results as part of the pre-filed evidence and suggests Toronto Hydro provide them at the next rebasing application.

OEB staff agrees with Toronto Hydro regarding the unprecedented state of the industry and the nature of the upcoming energy transition.[42] OEB staff also recognizes the significant effort and benefit of Toronto Hydro's effort to plan for and face the challenges that are sure to come.[43] The settled capital plan results in a further increasing expenditure plan that reflects increased scope of work. The nature of a five-year custom rate-setting framework provides Toronto Hydro the opportunity to manage the scope within the funding envelope. Additionally, Toronto Hydro's new variance accounts afford it further flexibility in executing the plan. The OEB has stated in the past that "a time of rapidly increased spending, whether such spending is by way of capital expenditure or

[36] Exhibit 1B, Tab 2, Schedule 1, section 2: *The Funding Need*
[37] Interrogatory Response 1B-Staff-12
[38] Undertaking Responses JT4.31, JT4.32, and JT4.33
[39] Decision with Reasons and Order on the Preliminary Issue, EB-2011-0144, p. 14
[40] Decisions and Order, EB-2014-0116, pp. 4 and 6-7
[41] Settlement Proposal, Supporting Schedules 3, 12, and 25
[42] Exhibit 1B, Tab 2, Schedule 1, p. 35
[43] Exhibit 2B, Section D3, p. 46

current expense, is not a time where regulatory oversight should be diminished."[44] Understanding how Toronto Hydro exercises the flexibility afforded to it by the framework in this Settlement Proposal is especially important considering that Toronto Hydro has stated that its capital plan not only addresses the needs of the current rate period but also is intended to support reliable system operations beyond 2029.[45]

As noted in the previous section, only some portions of Toronto Hydro's DSP are at the level of detail that would allow Toronto Hydro to demonstrate how it has exercised the flexibility provided under this Settlement Proposal to achieve productivity gains and optimize these plans. Toronto Hydro has consistently filed program-based DSPs, stating that project level planning occurs closer to the start of execution, approximately one year before the start of a project.[46] In the current proceeding, Toronto Hydro espoused a value framework that it plans to implement as early as 2026 that will support project level prioritization.[47] OEB staff would find it helpful that the next DSP prepared by Toronto Hydro contain a much larger proportion of the capital budget being supported by defined projects. Having defined projects will assist Toronto Hydro in effectively planning its investments, as well as reducing the information asymmetry challenges presented when OEB staff and other parties review Toronto Hydro's capital plans and conduct future variance analysis. OEB staff also notes the Settlement Proposal includes tables detailing the programmatic capital expenditures and in-service additions associated with the DRCVA.[48] OEB staff hopes that Toronto Hydro will recognize the benefit of articulating in the pre-filed evidence how it has exercised operational flexibility and demonstrate productivity gains through both rate base and DRCVA credits or debits. OEB staff encourages Toronto Hydro to include actual results for the capital expenditures and in-service additions presented in Tables 20 and 21 of the Settlement Proposal in the pre-filed evidence at the next rebasing proceeding.

OEB staff also notes the unprecedented nature of the RVA. OEB staff supports the Settlement Proposal in seeking interim, annual disposition of any accumulated balances. OEB staff notes the difficulty that Toronto Hydro had with explaining

[44] Decision, EB-2007-0680, p. 5

[45] At Exhibit 2B-D1, p.20 and 2B-D2, p. 11, Toronto Hydro states the Grid Modernization Program was informed by, among many things, an assessment of the desired future state of Toronto Hydro's grid in 2030 and 2035. This includes laying the groundwork for widescale grid automation beginning in 2030. At Exhibit 2B-D4, p. 18 and Exhibit 2B-E7.4 pp.1-2, Toronto Hydro describes its capacity planning for the DSP to include consideration for the 2030 - 2036 period, in relation to the Downsview Area.

[46] Technical Conference, Day 3 Transcript, pp. 4, 39, 53, 80, and 81-82

[47] Technical Conference, Day 1 Transcript, pp. 63-64

[48] Settlement Proposal, Tables 20 and 21

illustrative variances when articulating the proposal during this proceeding.[49] [50] As a result, OEB staff encourages Toronto Hydro to consider the evidence and supporting narratives that will be filed to support the disposition of any future balances. For example, JT4.35 illustrated the type of calculation that would support RVA additions for one rate class. OEB staff hopes that when Toronto Hydro brings balances forward for disposition, similar evidence with an accompanying narrative would be submitted to adequately explain the drivers of the variances for each rate class.

Conclusion

OEB staff submits that the settlement proposal is in the public interest and the accompanying explanation and rationale are adequate to support the Settlement Proposal. OEB staff further submits that the Settlement Proposal would result in just and reasonable rates for the customers of Toronto Hydro. OEB staff's position was developed in consideration of the objectives of the *Renewed Regulatory Framework* (RRF), the *Handbook for Utility Rate Applications*, applicable OEB policies, relevant OEB decisions, and the OEB's statutory obligations. [51] [52]

OEB staff commends the Parties for their diligence and effort in developing a substantial settlement proposal that OEB staff believes is in the public interest. OEB staff submits that the OEB should approve the Settlement Proposal.

~All of which is respectfully submitted~

[49] Technical Conference, Day 4 Transcript, p. 176
[50] Technical Conference, Day 5 Transcript, pp. 62-63.
[51] Report of the Board – *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*, October 18, 2012
[52] *Handbook for Utility Rate Applications*, October 13, 2016