

AIRD & BERLIS LLP

Barristers and Solicitors

Fred D. Cass
Direct: 416-865-7742
E-mail: fcass@airdberlis.com

October 31, 2012

Kirsten Walli
Board Secretary
Ontario Energy Board
PO Box 2319
2300 Yonge Street
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

Re: Application by Toronto Hydro-Electric System Limited; EB-2012-0064

We are writing to confirm that, today, Toronto Hydro-Electric System Limited (THESL) is filing with the OEB an update to its evidence in EB-2012-0064 (the "Update"). As stated in THESL's letters to the OEB dated September 13, 2012 and October 22, 2012, this Update reflects the results of THESL's review of the ICM jobs described in the application, to determine the extent to which the work plan must be updated to take account of the passage of time since the application was originally filed.

The Update represents a detailed, job-level review of the proposed capital expenditure program. THESL has applied this level of granularity to the Update for two reasons. First, the nature and circumstances of this incremental capital module ("ICM") application calls for an increased level of detail in the evidence. Second, the OEB has generally expressed a desire for more transparency and detail respecting THESL's evidence.

THESL sees the ICM as a regulatory instrument which allows for the funding of necessary capital expenditures in a context where there is no other mechanism available for funding those expenditures. These are the precise circumstances in which the utility finds itself – THESL presently has no other option to fund essential work. THESL believes that the work plan described in this update meets the requirements and intent of the incremental capital module as it has evolved over time, including the relevant ICM factors, such as need and prudence.

Content and Organization of the Update

The Update will provide the OEB and intervenors with new forecasts of job scheduling and cost estimates that THESL has developed over the past five months.¹ The updated evidence primarily addresses a shifting of jobs between ICM years, due to both the passage of time, and THESL's operational experience, since the application was filed in May of 2012.

To this end, the Update is effectively a "snapshot in time" which provides a more refined and fine-grained picture of THESL's work plan for 2012 and 2013. Since the filing of the application, time has passed and THESL has needed to complete certain essential work and plan for near-term execution of other essential work. As a result, THESL has been able to further refine the information in the application on the timing and sequencing of certain jobs, as well as the cost estimates associated with that work. This new information is reflected throughout the updated evidence.

All of the activity funded as a result of the OEB's decision in this case will be subject to a true-up process. THESL is committed to developing a true-up mechanism satisfactory to the OEB and is open to working with Board staff and intervenors to that end. In this way, ratepayers can have the full benefit of needed capital works, while being protected against under-spend or imprudent over-spend.

THESL has also taken the opportunity that the updating of the evidence presents to include in the Update:

- (a) Removal of the Grid Solutions project;² and
- (b) Corrections to original evidence.³

Finally, THESL has included with the Update responses to the interrogatories it deferred on October 5, 2012. For convenience, THESL's responses in this regard include an index of deferred interrogatories.

THESL will file its update through RESS, deliver hard copies to the OEB and provide an electronic copy to intervenors. As soon as is possible, THESL also intends to provide to parties an electronic convenience copy, including the updated pages, of the sections of its evidence affected by the Update.

¹ In some cases, THESL has been able to replace estimates with actuals.

² Pursuant to THESL's letter dated October 5, 2012.

³ Discovered in the course of preparing interrogatory responses and the evidence update.

In order to assist readers of the evidence, THESL's presentation of the Update is as follows:

- (a) an Addendum to the Manager's Summary explains the evidence update;
- (b) a Segment Update Narrative is placed at the beginning of each updated segment business case, which in a separate text box summarizes the key elements of the evidence update for that segment;
- (c) marginal notations appear within each business case at the locations where changes have been made; and
- (d) Appendix "A" to the Addendum includes a Revision Summary which documents each substantive change to THESL's pre-filed evidence, and provides the fundamental reason for each change (this includes a key for the marginal notations in the business cases).

THESL's evidence, as updated, demonstrates the critical need for its work plan. The Update has been developed by knowledgeable operation-level employees who have the responsibility for identifying and implementing the work described in the evidence. In due course, these employees will be presented as the witnesses who will testify in support of THESL's evidence.

Phasing Request and Proposal

THESL respectfully requests that the Board proceed to hear the application in two phases. THESL proposes that its work program for 2012 and 2013 be considered in the current phase of the proceeding and, with the exception of the Bremner Station project and associated capital contributions⁴, it proposes that consideration of 2014 projects be deferred to a second phase.

⁴ With respect to the Bremner Station project, and the associated capital contributions from THESL to HONI, THESL believes that it is necessary to treat that project as an integrated, three-year undertaking. Furthermore, THESL believes that its updated evidence supports both the updated timelines for the project and the associated expenditures through to the end of 2014, at which time Bremner is forecasted to be complete, subject to OEB approval. OEB approval for the whole of the first phase of the Bremner Station project is required at this time to enable THESL to enter into the construction and equipment supply commitments that are necessary to achieve completion by the end of 2014.

THESL makes this phasing proposal to facilitate an efficient and expeditious review of the ICM application for 2012/2013. There are a number of reasons why an expeditious hearing of THESL's application in respect of 2012 and 2013 is critical – these include the following.

For one, the capital work proposed in this application is essential to maintain the reliability of the distribution system for customers and the safety of employees and the public. For this reason, THESL has undertaken certain capital work in 2012 without the certainty of rates funding for that work. THESL forecasts that it will have spent a considerable amount of money beyond depreciation⁵ on projects in 2012 – for a total of \$275 million by year-end – money that has been spent without any assurance of recovery. This is not a sustainable course for THESL.

Further, in order to provide ratepayers with certainty concerning rates to be effective in 2013, and to address critically needed capital work, THESL respectfully submits that there is an urgent need for OEB guidance regarding THESL's capital projects in 2012 and 2013.

As stated, THESL anticipates that the proposed phasing of its application will facilitate an expeditious consideration of 2012/2013 projects. THESL requests that a procedure be established to allow for a hearing of the current phase of the case before the end of 2012.

This procedure could include a Technical Conference, held as soon as possible after parties have reviewed the evidence update, where parties would be able to ask questions about, and seek clarification of, the updated evidence.

A phased approach to this proceeding would mean that evidence regarding 2014 could effectively be put "on hold" until the second phase of the proceeding. THESL has marked the evidence that is specific to 2014 using a "strikethrough" format, so that the Board and parties will be able to identify evidence that need not be addressed in the current phase of the proceeding. While this evidence is not being withdrawn, THESL would update it prior to the second phase of the proceeding. The update of the 2014 evidence would reflect the Board's decision in the current phase, the then most current forecast of the 2014 work plan, and THESL's progress on 2012 and 2013 projects at the time of the 2014 evidence update.

⁵ THESL estimates depreciation funding to be between \$140 and \$145 million, depending on the approach taken.

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If the OEB would like any additional information with respect to the contents of this letter or the Update, please do not hesitate to contact us in that regard.

Yours truly,

AIRD & BERLIS LLP



Fred D. Cass

FDC/

c.c. All EB-2012-0064 Intervenors
Amanda Klein, THESL