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Ontario

BY E-MAIL

January 10, 2013

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

Re: Toronto Hydro-Electric System Limited
Application for 2012, 2013 and 2014 Distribution Rates
Board File Number EB-2012-0064

Please find attached Board staff's submission in the above proceeding.

Original Signed By

Martin Davies
Project Advisor, Applications & Regulatory Audit

Attachment

cc: Parties to EB-2012-0064 proceeding

ONTARIO ENERGY BOARD

BOARD STAFF SUBMISSION

Toronto Hydro-Electric System Limited

EB-2012-0064

January 10, 2013

Background

Toronto Hydro-Electric System Limited ("THESL" or the "Applicant") filed an IRM application (the "Application") seeking changes to the rates that THESL charges for electricity distribution effective June 1, 2012. An oral hearing was held from December 10 to December 14, 2012. THESL filed its argument-in-chief on Friday December 21, 2012.

This is the submission of Board staff with respect to THESL's application. The submission is divided into sections covering each of the issues on the Approved Issues List. Board staff has only provided detailed comments on issues where its position differs from THESL's.

Incentive Regulatory Mechanism ("IRM) Schedules and Models

Issue 1.1: Are the IRM Model filings by THESL, including the tax sharing proposal for 2012, in accordance with the Board's requirements and, if not, are any proposed departures adequately justified?

Board staff is satisfied that, subject to the concerns expressed subsequently about the nature of THESL's filings related to the ICM module, THESL's IRM filings are in accordance with the Board's requirements.

Board staff submits that as part of the rate order process that will occur subsequent to the issuance of the Board's Decision in this proceeding that THESL should be required to make updates to reflect the revised Uniform Transmission Rates as well as the changes to the Price Escalator and Stretch Factor used in the IRM adjustment to base rates that have been announced by the Board to date.

Issue 1.2: Is THESL's proposal that the Board approve under the IRM framework separate and successive ICM revenue requirements and corresponding distinct electricity distribution rates and rate adders for each of the 2012, 2013 and 2014 rate years appropriate?

Board staff is satisfied that, subject to the concerns expressed subsequently about the nature of THESL's filings related to the ICM module, THESL's proposal that the Board approve under the IRM framework separate and successive ICM revenue requirements and corresponding distinct electricity distribution rates and

rate adders for each of the 2012, 2013 and 2014 rate years is appropriate taking into account the circumstances of the present application. Board staff submits that in the absence of an alternative mechanism at the time, THESL's request is a reasonable approach for addressing its capital needs.

Issue 1.3: Is THESL's proposal that the Board recognize in rates THESL's approved 2011 year-end rate base appropriate?

Background

THESL's application contained a request that the Board recognize in distribution rates the Board-approved actual year-end rate base of 2011, which is materially larger than the average rate base upon which 2011 rates were set.[1]

THESL stated that as a result of the fact that 2011 rates were set on the basis of average rate base and since the IRM/PCI adjustment does not by itself recognize material increases over approved rate base in place by the end of the rebasing year, a material deficiency stemming from the unrecognized rate base is created in 2012 rates.

Discussion and Submission

Board staff is of the view that THESL's proposal relates to the generic issue of the half-year rule which impacts all distributors and is generic in nature.

Staff further notes that there is no provision in the Board's *Filing Requirements for Incentive Regulation Mechanism Rate Applications* for such an adjustment.

Board staff submits that THESL has not provided any circumstances specific to it which would justify a departure from the generic approach.

Board staff further notes that the Board has rejected similar requests in both its recent Enersource Hydro Mississauga Inc. (Enersource) (EB-2012-0033) and PowerStream Inc. (PowerStream) (EB-2012-0161) decisions.

[1] Toronto Hydro-Electric System Limited EB-2012-0064 Tab 2, pp. 4-5.

In the Enersource case, the Board rejected a proposal for setting 2014 rates that Enersource named the Incremental Capital Return model. This model involved the setting of rates for the 2013 Test year in the traditional fashion with rates for 2014 set by increasing 2013 rates to include the revenue requirement effects of 2014 capital expenditures, including depreciation, return and PILs. Under the proposal, the rates for cost of capital, level of OM&A expenditures and forecast load would all remain unchanged.

In the PowerStream case, the Board rejected PowerStream's request for a full year of depreciation for capital additions in the 2013 Test year.

Board staff submits that while in the future it may be appropriate for the Board to review the application of the half-year rule in the IRM context , it is current Board policy and has been applied consistently. Accordingly, Board staff submits that if the Board is inclined to address this matter going forward, the most appropriate approach would be in a generic proceeding.

Issue 1.4: What is the consequence of this application on any future application by THESL for rates for 2013 and/or 2014?

Board staff notes that THESL's application dealing with phase 1 of this proceeding is intended to set rates based on the IRM framework for 2012 and 2013. Staff also notes that THESL has indicated its intention to continue with phase 2 of this proceeding for the setting of rates for 2014, likewise on the IRM framework. Based on this understanding, Board staff makes no submissions on this issue.

Issue 2.1: Is THESL's application of the ICM criteria appropriate?

Background

On October 18, 2012, subsequent to the filing of THESL's application, the Board issued its *Report of the Board Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach.* The Board's Report outlined a Custom Incentive Rate-setting (Custom IR) approach which was described as being appropriate for distributors with significantly large multi-year or highly

variable investment commitments with relatively certain timing and level of associated expenditures.

Board staff acknowledges that THESL's application was filed before the issuance of the above-referenced Board Report and submits that it is appropriate that the Board consider THESL's application on the basis on which it has been filed including the impending second phase 2014 capital expenditures. However, Board staff submits that on a going-forward basis, applicants requesting the type of multi-year ICM relief sought by THESL in the present application should do so on the basis of the Custom IR approach, as this approach has been specifically designed for the type of circumstances which THESL is presently facing.

Board staff notes that THESL has filed its application on the basis of requesting that the Board approve selected capital expenditures for 2012, 2013 and 2014, although the 2014 expenditures were subsequently deferred to the second phase of this application.

THESL's Capital Expenditures Approach

THESL submitted that its forecast capital expenditures which it had determined were eligible for ICM treatment should be run through the ICM model on a portfolio basis with the in-year component of each project, characterized as "jobs" in the application, being the amount of capital expenditures that would be input into the ICM module.

Under THESL's proposal, $283 million of 2012 capital expenditures would be run through the ICM module for 2012 and $579 million of 2013 capital expenditures for 2013. This is the amount of non-discretionary capital spending above the amounts currently reflected in rates that THESL states it needs to invest over 2012-2013.

THESL summarized the effects of its proposed approach in response to a Board staff undertaking[2]. This table is reproduced below:

[2] Toronto Hydro-Electric System Limited EB-2012-0064 Tab 8 Schedule 5-10, p.2.

THESL'S Proposed ICM Adders based on OEB ICM Framework

$ millions	2012	2013	2014	Totals	Notes
Capital Spending	283.0	579.0		862.0	[A] Tab7 Sch2-10 pg 2of4
Less: Threshold (including 20% deadband)	173.0	173.0		346.0	[B] Tab2 App2 pg 1of1
ICM Additions to Rate Base	**110.0**	**406.0**		**516.0**	[C] = [A] - [B]
Approximate capital recovery factor	10%	10%			
ICM Adder for 2012 Spending	**11.0**	**11.0**	**11.0**	33.0	
ICM Adder for 2013 Spending		**40.6**	**40.6**	81.2	
Total Revenue from ICM Adders over IRM Period				**114.2**	

The concern with this approach which was expressed by some parties was that the Board had in previous decisions approved only in-year in-service capital expenditure amounts for recovery through the ICM module. The amounts proposed for recovery by THESL are based on capital spending in the relevant years, not the amounts for assets that actually enter into service.

Capital Expenditures In-Service In-Year Approach

In response to an undertaking requested by SEC, THESL provided an in-service summary of its capital program[3]. Based on the information provided in this undertaking, and excluding the Bremner project which is being dealt with in a separate segment of the first phase of this application, Board staff has derived a table similar to that presented by THESL and as reproduced above. This table is shown below:

[3] Toronto Hydro-Electric System Limited EB-2012-0064 Tab 8 Schedule 5-1, p.1.

$ millions	2012	2013	Total
Capital Spending:			
2012 In-service	116.3		116.3
2012 In-service 2013		140.6	140.6
2013 In-service		283.8	283.8
Total Capital Spending IS	116.3	424.4	540.7
Less: Threshold	173	173	
ICM Additions:	-56.7	251.4	251.4

This table indicates that using the capital expenditures in-service in-year approach, the ICM additions for which THESL would be eligible would occur only in 2013 and would drop from the total of $516 million proposed by THESL to $251 million.

Assets-in-Service Approach

THESL also provided information on an assets-in-service approach, which is summarized in the table below[4]:

[4] Toronto Hydro-Electric System Limited EB-2012-0064 Tab 8 Schedule 5-10, p.3.

THESL's Unfunded Net Fixed Assets During IRM Period

$ Millions	2011	2012	2013	2014	Total	Notes
2011 Approved Closing NFA	2,105.1					Tab1 Sch2-11 pg 2of3
2011 Approved Average NFA	2,001.5					[A] Tab1 Sch2-11 pg 2of3
2012 Opening Incremental NFA	103.7					calculated
Opening Net Fixed Assets		2,105.1	2,149.1	2,476.0	-	[B] = Prior Year's Closing Net Fixed Assets
Pre-2012 CWIP		67.0	45.5	32.3	144.7	Tab8 Sch2-1 J2.1
Additions from 2012 Capital Spending		116.3	140.6	26.1	283.0	Tab8 Sch2-1 J2.1
Additions from 2013 Capital Spending		-	283.8	295.3	579.1	Tab8 Sch2-1 J2.1
Depreciation - pre-2012 Asset Base		(134.7)	(122.5)	(117.1)		as per THESL Asset Registry
Depreciation - Pre-2012 CWIP		(1.0)	(2.7)	(3.9)		THESL Estimate
Depreciation - 2012 and 2013 Additions		(3.6)	(17.7)	(31.7)		THESL Estimate
		-	-	-		
Closing Net Fixed Assets		2,149.1	2,476.0	2,677.0		[C]
Average Net Fixed Assets		2,127.1	2,312.6	2,576.5		[D] = ([B] + [C]) / 2
Less: Net Fixed Assets funded through rates		2,015.1	2,028.8	2,042.6		[E] = [A] growing at 0.68% annually
Unfunded Net Fixed Assets		112.1	283.8	533.9		[F] = [D] - [E]
10% Proxy Revenue Attraction Factor		11.2	28.4	53.4	**93.0**	[G] = [F] x 10%

2012 unfunded revenue requirement		11.2	11.2	11.2	
2013 unfunded revenue requirement		-	17.2	17.2	
2014 unfunded revenue requirement		-	-	25.0	**93.0**

Staff notes that the above table demonstrates that an assets-in-service approach, as compared to a capital expenditures-in-service approach, produces a net total revenue amount of $93 million, as compared to the $114 million from the capital expenditures approach. However, unlike the capital expenditures approach, the assets-in-service approach includes an adjustment for the 2011 unfunded capital spending ($103.7 million) so these numbers are not directly comparable.

Discussion and Submission

Board staff submits that the approach of including only the in-service portion of capital expenditures is consistent with what the Board has adopted in previous ICM decisions and is the ordinary practice in a cost of service hearing. Staff notes that while the use of a multi-year ICM is unique to THESL, this approach is acceptable to staff given the circumstances of this application, and this is accordingly the approach that the Board should adopt in this proceeding.

In its Argument-in-Chief, THESL stated when discussing Board documents and decisions relevant to this matter that “It was and is clear to Toronto Hydro from

these sources that the Board's ICM framework is based on a "capital spending" model."[5] During the hearing THESL was asked by Counsel for SEC whether or not any of the prior Board decisions referenced by THESL included amounts that would be CWIP at the end of the year as part of this approved capital spending. This exchange is reproduced below:

MR. SHEPHERD: Okay. So we looked at the eight ICM applications that have been approved to date, and there may actually have been one just in the last month or so, but, if so, I missed it.

And am I right that none of those applications include amounts that would be CWIP at the end of the year, the ICM year? Is that right?

MR. WILLIAMS: I don't think that is entirely obvious.[6]

Mr. Williams then cited the Guelph Hydro ICM application as the only one where this may not have been the case. However, Mr. Williams clarified subsequently during his cross-examination that the MTS that was the subject of the Guelph Hydro ICM application was an in-year capital expenditure.[7]

Board staff submits that it is clear from an examination of both the Board's prior ICM decisions and THESL's testimony during this proceeding that in-service capital expenditures are what the Board has approved in prior ICM Decisions and are accordingly what the Board should also approve in this proceeding.

Staff is of the view that given that this phase of THESL's application covers both 2012 and 2013, it is appropriate to include 2012 capital expenditures that come into service in 2013, as well as in-service 2012 and 2013 assets, but it is not appropriate to include the portion of the 2013 capital spend that comes into service in 2014 until the second phase of this proceeding, dealing with the 2014 proposed capital expenditures, takes place.

[5] EB-2012-0064 Toronto Hydro Argument December 21, 2012, p.5.
[6] Transcript, Vol. 5, p. 47, L25 to p.48, L4.
[7] Transcript, Vol. 5, p.54, L8-L19

Board staff submits that both the approach contained in THESL's application as filed and the approach of using assets-in-service as discussed by THESL during the hearing are not consistent with the Board's prior ICM Decisions and would represent substantial changes in the Board's approach to the ICM. As such, if these approaches were to be considered by the Board, such consideration should be undertaken in some form of generic proceeding. Board staff submits that given these circumstances, the Board should reject these approaches in the present proceeding.

Issue 2.2: Has THESL provided sufficient evidence including consultant reports, business cases and consideration of alternatives, for the proposed capital projects to adequately justify them?

Board staff has reviewed THESL's evidence on the capital projects and while staff has generally no concerns about the majority of projects proposed, Board staff believes that the Board should make reductions to THESL's requests in certain areas. Board staff will provide comments on these areas in this section. These reductions would have the effect of reducing THESL's overall request by about 15% (in addition to any reductions arising from the use of capex-in- service and THESL's proposed "update" relating to the half year rule) to determine an appropriate level of approved in-service capital expenditures and are summarized in the table below:

Board Staff Proposed Reductions To Be Discussed								
								Proposed
$ millions								***Staff***
						From	***To***	***Reduction***
THESL 2012/2013 in service 2013						424.4	362.3	62.0
B1	Underground Infrastructure					51.9	24.1	27.8
B5	Box Construction					14.3	8.8	5.5
B12	Station Power Transformers					2.3	1.3	1.0
B13.1/2	Station Switchgear					14.2	11.2	3.0
B16	Downtown Station Load Transfers					1.7	0.0	1.7
B18	Hydro One Capital Contributions					10.7	1.5	9.2
B19	Feeder Automation					13.9	0.0	13.9
Percentage Reduction								14.6%

Board staff submits that the Board could also consider an additional reduction due to concerns which Board staff will outline subsequently about THESL's use of its evaluation models.

Evaluation Methodologies

THESL provided its definition of prudence[8] for each project, which is:

- the achievement of or approach to the lowest reasonable life cycle cost consistent with all other constraints, including for example safety of equipment,
- compliance with standards including accepted standards of good utility practice,
- public acceptability, and
- reliability and adequacy of the distribution system.

THESL relied on its Feeder Investment Model[9] ("FIM"), to justify the economic prudency of implementing the various segments where applicable, including justification of implementation of a given segment in 2012 instead of waiting until 2015, where "In Kind Replacements" are implemented.

[8] Tab 2/pp. 19-20
[9] Tab 2/Appendix 4/pp. 1 - 7

THESL also used a variation of that approach[10] named “The Cost of Ownership” or “COO” in segments where:

- the economic evaluation is, taken over a century, of the various costs associated with owning the assets in question across their entire economic life-cycle

- the comparison between different Costs of Ownership is used to show the benefits of replacing an obsolete asset configuration with a modern one. This comparison is provided for box construction, rear lot construction and feeder automation.

Board staff has reviewed the description of the elements of the FIM and COO Models[11] and is of the view that the theoretical basis for the two Models is sound.

However, Board staff submits that the results can vary widely depending on the input assumptions used in THESL’s two models. Board staff further submits that until certain enhancements are implemented to these models, the Board should put limited weight on the results where they are used to show that advanced implementation in the IRM period for any one segment is more economic than waiting until 2015.

Board staff submits that the following are key assumptions that affect markedly the accuracy of the results of the FIM and COO Models:

1. Use of the total “Peak Feeder Load” as a single metric to represent all customers load undifferentiated by customer classes.

2. Use of a fixed set of referenced customer interruption costs for all customer interruptions in all the FIM and COO type business case evaluations, specifically a $30/kVA (peak load) customer interruption cost value to represent the outage occurring (The “Event”); and a $15/kVA-hour (peak load) customer interruption cost value to represent the length of the

[10] Ibid/pp 6 - 7
[11] Tab 2/Appendix 4/pp. 1 - 7

outage (The “Duration”). THESL indicated that these costs are adopted within every FIM and COO business case evaluation presented within the ICM filing.

Board staff submits that the two Models (FIM and COO) would be materially improved if the two noted aspects were addressed[12] and that the needed improvements include:

1. incorporation into the FIM model for each of THESL’s 1600 feeders of the number of customers by class along with their respective loading on each of those feeders;

2. occurrence of fault incidents should reflect situations where faults occur randomly, and not only during system peak as THESL has done.

3. use of appropriate surveys by customer class to determine unit costs for incidents occurring at off-peak periods to reflect the expected customer costs in those periods.

4. Use of surveys on the various customer classes to determine the units of customer costs per class as recommended by experts in that field such as Dr. Roy Billinton[13].

Board staff asked THESL during the hearing to provide an undertaking to illustrate the sensitivity of the key assumptions referenced above. Specifically, for an illustrative job in segment B1, THESL was asked to assume residential customer interruption costs at 10 % and 20 % of the unit customer costs assumed by THESL ($30/kVA & $15/kVA.hour)[14].

The results of the sensitivity analysis showed that the “Three Year Avoided Risk Costs” would be reduced from $10.19 million to $0.64 million assuming 10% of the unit customer costs and to $1.77 million assuming 20% of the unit customer costs.

[12] Transcripts (Hearing), Vol 1, December 10, 2012/p. 139/lines 2 - 16
[13] Transcripts (T.Conference), November 23, 2012/p. 69 line 20 to page 70, line 8
[14] Tab 8/Sch. 1-5, B.staff Undertaking, filed December 11, 2012

The implication of the sensitivity analysis is to show the significant variability in the results depending on the assumptions made by THESL. THESL concluded that because the avoided risk costs were $10.19 million and the cost of proceeding today was $2.9 million, that it made sense to undertake this project today. However, under both of staff's assumptions, the results of the Model would indicate that it is uneconomic to implement the construction in 2012, since both of the avoided risk costs produced by the sensitivity analysis are below $2.9 million.

Board staff notes that THESL in its comments on the undertaking stated that the two values requested do not reflect the true costs associated with outages. Board staff is of the view that since the customers served in this selected feeder are predominantly, if not all, residential, the reductions to 10% and 20% of THESL's values are directionally realistic levels. This is because the much higher level of costs used by THESL would only be indicative for a feeder serving larger usage customer classes. However, for a feeder serving predominantly residential customers the margin of error would be large. This is attributable to the fact that interruption costs for residential customers are typically very small compared to other customer classes' commercial customers e.g., a shopping mall or industrial customers.

Board staff notes that while the example above is only intended to be illustrative, it indicates both the significant and material impact the assumptions can have on the results and that staff has concerns with the nature of some assumptions. Given these concerns with the assumptions, the difference in avoided risk costs provided by THESL may not be sufficient to satisfy the non-discretionary criteria.

In conclusion, Board staff submits that in the absence of the suggested enhancements to the FIM and COO Models, the results obtained are of uncertain analytic value and therefore the Board should not rely on the results as definitive of the true cost of the different options.

Non-discretionary Criteria

Board staff observes that THESL indicated that the 10 Programs or Projects[15] that are further categorized into 21 segments are all essential and non-discretionary[16]. THESL indicated further that every project addresses a well-defined need that must be met in the short term, i.e., over the three-year period covered by both phases of the application. THESL added that generally, projects are essential and non-discretionary on the basis that they are required for one or more of the following five reasons:

(1) Statute, code, provincial policy, or equivalent external requirement;

(2) Considerations of safety for the public and for workers operating in, on, or around equipment;

(3) Existing or imminent reliability degradations;

(4) Existing or imminent capacity shortages;

(5) A material increase in cost (beyond the time value of money), if the project is necessary but undertaken at a later time.

Board staff notes that the Board, while specifying that a proposed ICM project should be non-discretionary in nature[17] has not provided its own definition of the meaning of the term “non-discretionary” in the context of ICM projects. In prior ICM decisions, the Board has made determinations that the projects were non-discretionary but the Board has not established detailed criteria for this assessment.

Board staff views THESL’s criteria as reasonable for the purposes of this application, and not inconsistent with prior Board decisions. Board staff has therefore considered these criteria in its analysis of the projects, including the ones below where Board staff raises concerns. Board staff also takes the view that these criteria would encompass projects that would not have to be non-

[15] Tab 2/p.14/lines 24-27
[16] Tab 2/pp. 16-17
[17] Chapter 3, Section, 2.2.5

discretionary for a particular year, but for the period of the IRM. Board staff submits that in addition to the non-discretionary nature of a project, the Board should also consider the rate impact on consumers and whether investments can be paced to smooth these impacts.

Project: Underground Infrastructure and Cable (B1 to B3)

B1 - Underground Infrastructure

Background

THESL's updated evidence[18] of October 31, 2012 decreased the investment in this segment for the 2012-2013 budget from $99.96 million to $87.7 million. The expected total 2013 In-Service investment[19] in this segment is $51.88 million (total Forecast 2013 in Service for 2012 Carryforward plus 2013 additions.)

Based on the evidence filed in the proceeding including Exhibit K3.1,[20] the following key facts have been established related to this segment:

THESL stated[21] that 22.6% of the total population of Submersible Transformers would be past useful life by 2011, increasing to 27.1 % of the total population by 2014. THESL further stated that 569 submersible transformers were to be replaced[22] at a cost of $6.6 million out of a total investment for segment B1 of $87.7 million (2012 Forecast plus 2013 Budget).[23]

Where the impact of the existing submersible transformers on customer service is concerned, a useful indicator is the number of feeders where submersible transformers[24] cause in excess of 25% of the total feeders Customer Interruption ("CI") and Customer Hourly Interruption ("CHI") indicators. Where the 26 feeders which are under consideration for 2012 and 2013 in this application are

[18] Tab 4/Schedule B4/p.Schedule A/Appendix 1, filed October 31, 2012
[19] Tab 8/Schedule 2-1/Appendix A - filed December 11, 2012
[20] Exhibit K3.1, Transcripts, Vol 3, December 12, 2012/p. 2 titled "Corrected Tables showing the contribution of Submersible Transformers to Feeder CI and Feeder CHI for 2007 to 2011.
[21] Tab 6F/Sch. 7-15 /p. 2 (E.Probe IRR 15)
[22] Exhibit K3.1, last Table
[23] Tab 4/Schedule A/Appendix 1/p. 1, Updated October 31, 2012
[24] Transcripts, Vol 3, December 12, 2012/pp. 6 - 7

concerned, indicators for 2010 and 2011 showed that only two of the 26 feeders exceeded the 25% level[25].

Furthermore, the Asset Condition Assessment provided by Kinetrics[26] indicated that based on a sample size of 90.29 % (Total Population of 9,249), more than 98% are either in good (20.93%) or very good (77.72%) condition, and only 1.33% are in fair condition, leaving only 0.02% in poor condition.

However, during the hearing when discussing these results, THESL indicated that the Multi Tap that is installed over the transformer and can be a source of degradation raising questions about the conclusions that should be reached based solely on a review of the Asset Condition Assessment"[27].

In response to a request from Board staff,[28] THESL stated that the number of Submersible transformers that are "Poor or "Very Poor" when the "Multi-Tap" issue is taken into consideration increases from 0.02% to 20.34%.

In response to a request from SEC, THESL provided evidence[29] that the cost of a Multi-Tap is about $500, exclusive of labour costs. This compares to the cost of a submersible transformer of about $8,400, also exclusive of labour costs. THESL added other costs for installing the Multi-Tap versus the Transformer, which are based on doubling the work if the two are not done simultaneously, as under such circumstances when a transformer fails, a crew needs to be sent again.

Discussion and Submission

Board staff is of the view that THESL's position is overly pessimistic on the number of transformers that will fail in the short term. This would not appear to be the case for the majority given their excellent condition discussed above (more than 98% in Very Good or Good Condition).

[25] Ibid
[26] Tab 4/Sch. D1 "Kinectrics Report, 2012 Asset Condition Assessment Audit"/pp. 42-43
[27] Transcripts, Vol 3, December 12, 2012/pp. 6 - 7
[28] Tab 8/Schedule 3-1, Response to Undertaking J3.1 by Board counsel
[29] Tab 8/Schedule 3-2, Response to Undertaking J3.2 by SEC counsel

Board staff submits that given the generally excellent condition of the transformers, these problems can be addressed by replacing only the multi-taps, except in circumstances where the condition of the transformer is Poor or Very Poor.

Board staff notes that if a particular project is not needed to be done in the subject time frame, then it should be considered as a discretionary item. Given the evidence that if the condition of the Multi–Taps is Poor or Very Poor they can be replaced at a fraction of the cost of replacing the submersible transformers as well, Board staff submits that THESL has not established the need to replace the entire units and that it is more prudent to replace only the Multi-Taps for the noted 596 locations unless the Transformer Condition is Poor or Very Poor, which evidence shows is the case for only 0.02% of the total population of the transformers.

Staff notes that even in an extreme scenario where it was considered that all 596 Multi-Tap units would be in need of replacement, that cost would be only around $348,000 (exclusive of labour), which is considerably less than the roughly $6.6 million cost of replacing both Multi-Taps and transformers.

Given the generally good or very good condition of the submersible transformers and the much lower cost of replacing only the Multi-Taps, Board staff recommends that segment B1 be treated so that replacement dollars be approved for only the 0.02% of the total population of the transformers in “Poor” or “Very Poor” condition amongst the 596 units.

On this basis, Board staff would conclude that the 2013 total investment of $51.9 million in this category [total Forecast 2013 in Service for 2012 Carryforward plus 2013 additions (In-Service)] should be adjusted down to $48.2 million. This results from subtracting from the total a proportionate amount of $3.92 for submersible transformers and adding a proportionate amount of $0.2 million for Multi-taps, which would allow for the replacement of more than half of the Multi-taps. Furthermore, given that the transformers are mostly in good or very good condition, Board staff submits that this $48.2 million expenditure can be paced over two years further reducing the recoverable 2013 amount to $24.1 million.

Project: Overhead Infrastructure and Equipment

B5 - Box Construction

Background

THESL's updated evidence[30] of October 31, 2012 decreased the investment in the 2012-2013 budget from $30.74 million to $23.62 million for this segment. The expected total 2013 In-Service investment[31] is $14.34 million.

THESL`s evidence indicated that one of the key areas of this segment is to support decommissioning of 4KV stations[32], and stated in part that one of the key reasons why this work is necessary is to:

> ``Support decommissioning of 4kV stations feeding box construction feeders such as Hazelwood municipal station (MS) – Some stations, such as Hazelwood MS, have assets in need of immediate replacement. Rather than undergo costly 'like-for-like' replacement of legacy station assets, it is prudent to convert associated box construction feeders to a higher voltage level and decommission the station``

Discussion and Submission

Board staff accepts THESL`s evidence that some of the municipal stations are in need of immediate replacement, such as the Hazelwood MS cited above. Board staff, however submits that not all municipal stations are in need of immediate replacement. For instance there was no transformer dissolved gas analysis presented for three of these stations Keele MS, St. Clair MS and Dupont MS to indicate that these transformers are in need of immediate replacement.

The total number of municipal stations in need of replacement as proposed by THESL was 9, including Hazelwood MS, and was reduced to 8 in the October 31, 2012 update.

[30] Tab 4/Schedule B4/Schedule A/Appendix 1, filed October 31, 2012
[31] Tab 8/Schedule 2-1/Appendix A - filed December 11, 2012
[32] Tab 4/Schedule B5/p. 2/lines 20 -24

Board staff submits that given that THESL has not undertaken the analysis referenced above for three of the stations, it would be more reasonable to assume that 5 of the 8 stations are in need of replacement for rate-setting purposes. Accordingly Board staff submits that THESL's requested 2013 costs for Box Construction is-service should be reduced from $14.34 million to $8.8 million, which is approximately 5/8ths of the requested $14.34 million.

Project: Station Infrastructure and Equipment

B12.-.Stations Power Transformers

Background

THESL's updated evidence[33] of October 31, 2012 indicates an investment of $3.86 million in the 2012-2013 budget. The expected total 2013 In-Service investment[34] in this segment is $2.33 million.

Discussion and Submission

Board staff submits that the evidence suggests that not all 12 transformers proposed in this segment for replacement by THESL should be replaced in the 2012-2013 period, but instead that 5 of the 12 Power Transformers proposed for replacement should instead be kept in-service and monitored in regard to their Dissolved Gas Analysis ("DGA") results.

Board staff notes that in response to an AMPCO interrogatory[35], THESL provided a table that showed the following 4 transformers have a Fair Health Index: Thistletown, TR1, and TR2, Norsem TR1, and Underwriter TR1. During the Technical Conference, THESL's witness[36] clarified that a fifth transformer, Scarborough Golf Club Rd, TR1, also has a Fair Health Index.

[33] Tab 4/Schedule B4/Schedule A/Appendix 1, filed October 31, 2012
[34] Tab 8/Schedule 2-1/Appendix A - filed December 11, 2012
[35] Tab 6F/Schedule 2-22, October 5, 20122 – Response to AMPCO IRR 22.
[36] Transcript, Technical Conference, November 21, 2012/p. 137/lines 23 -25

THESL's evidence[37] provided the results of visual inspection for oil leaks as well as DGA results for all 12 transformers. The DGA results for the five transformers that have a Fair Health Index, show a Condition 1 designation, which indicates that while there is some gas accumulation, as would be expected in any power transformer, this accumulation would require attention and monitoring, but would not necessitate replacement.

THESL's evidence[38] shows that the age of the five transformers ranges between 53 and 61 years. Board staff submits that the age of the 5 transformers alone should not be a determinant for replacement and notes that THESL acknowledged this in response to a Board staff interrogatory[39].

In that same response, it was acknowledged[40] by THESL that oil leaks such as those identified as occurring in some transformers indicate degradation of gaskets and seals.

Board staff submits that such leaks can be addressed and fixed.
Board staff further submits that moisture and sludge in transformer oil is treatable in transformers, and should be treated if encountered in any of the 5 noted transformers whose Health Index is Fair.

Board staff submits that THESL has only provided justification for the replacement of 7 of the 12 transformers on a non-discretionary basis. Board staff further submits that while the remaining 5 transformers need to be monitored, their replacement at the present time could be deferred. Accordingly, Board staff submits that THESL's 2013 requested in-service investment for stations power transformers should be reduced by $1 million from $2.33 million to $1.33 million.

[37] Tab 4/ schedule B 12/pages 10-32
[38] Tab 4/ schedule B 12/pages 10-32
[39] Tab 6F/Schedule 1-45, October 5, 2012, Board staff IRR 45
[40] Tab 6F/Schedule 1-45, October 5, 2012, Board staff IRR 45

B13.1 & B13.2 -Stations Switchgear - Municipal and Transformer Stations

Background

THESL's updated evidence[41] of October 31, 2012 shows a decrease in the investment in the 2012-2013 budget from $38.11 million to $23.54 million. The total investment that is expected to be In-Service in 2013[42] is $14.24 million.

Discussion and Submission

B13.1

Section B13.1 is the Municipal Substation Switchgear Replacement Segment. Board staff submits that not all circuit breakers should be replaced in this segment as the Health Index indicates that 90 % are in Fair or Good condition[43].

Board staff notes that the evidence indicates that only one circuit breaker failed catastrophically[44] over the last 10 years. This was at Station J MS in East York which was 55 years old. The referenced evidence above would suggest that spreading the replacement of the circuit breakers over a longer period of time would not pose any imminent danger to either THESL's staff or to the public.

Based on the evidence submitted by THESL, Board staff would consider it reasonable that THESL would assign a high priority to 4 of the 12 Municipal Stations[45] that have additional operational problems posing risk to operating personnel due to circuit breakers in these substations that have auto re-close problems. Board staff submits that THESL has not provided sufficient evidence for the other 8 Municipal Stations to support the view that their replacement is non-discretionary within the IRM period.

[41] Tab 4/Schedule B4/Schedule A/Appendix 1, filed October 31, 2012 & Tab 4/Schedule B13.1/p. i, "Summary of Changes in the Update & Schedule B13.2/p. i "Summary of Changes in the Update
[42] Tab 8/Schedule 2-1/Appendix A - filed December 11, 2012
[43] Tab 6F/Schedule 1-48, October 5, 2012 – Board staff IRR 48 & Tab 4/Schedule D1/pages 31-32 "Kinectrics Inc. Report, May 7, 2012"
[44] Tab 6F/Schedule 1-46, October 5, 2012 – Board staff IRR 46, Question a)
[45] Tab 4/Schedule B 13.1/p. 4

B13.2

Section B13.2 is the Stations Switchgear – Transformer Stations Segment. Board staff accepts THESL's evidence for B13.2.

Based on the concerns that Board staff expressed above and Board staff's view that it would be reasonable that THESL assign a high priority to 4 of the 12 Municipal Stations, Board staff would consider it reasonable that THESL's requested $14.24 million be reduced by $3 million to $11.24 million.

B16 - Downtown Station Load Transfers

Background

THESL's updated evidence[46] of October 31, 2012 decreased the investment in the 2012-2013 budget for this project from $3.34 million to $2.82 million. The expected total 2013 In-Service investment[47] in this segment is $1.68 million.

Discussion and Submission

Board staff notes that for the Dufferin-Bridgman feeder ties work THESL's October 31 updated evidence[48] stated that about 21% of this work remains to be done in 2012. This includes completion of electrical work, feeder transfers, some feeder capacity upgrades and commissioning.

According to THESL's evidence, the other two jobs[49] which together with the Dufferin-Bridgman feeder ties work represent the proposed $2.8 million expenditure, are to provide transfer of customer loads on the feeder pairs respectively between the Basin and George and Duke stations; and the Basin and Carlaw stations. The load transfer capability if this work is completed that would become available is indicated to be up to roughly 3% of the Basin TS loading; 3% of the George and Duke TS loading; and 5% of the Carlaw TS loading.

[46] Tab 4/Schedule B4/Schedule A/Appendix 1, filed October 31, 2012
[47] Tab 8/Schedule 2-1/Appendix A - filed December 11, 2012
[48] Tab 4/Schedule. 16B16/p. 1/lines 9-12, and "Table: Proposed Feeder Ties"), October 31, 2012
[49] Ibid/p. 3/lines 1 - 5

Board staff notes that during a technical conference discussion of this segment,[50] THESL stated that the Bridgeman TS has an approximate capacity of about 250 MVA and that the proposed investment will only provide relief in the event of total station outages for between 15% – 30 % of that station's capacity.

Board staff submits that the relatively low level of station capacity relief if low probability/ high impact events for the stations discussed above occur, compared to the size of the investment, would suggest that this is not a prudent investment by THESL. Accordingly, Board staff submits that the proposed total 2013 In-Service investment in this segment of $1.68 million should not be approved by the Board under the ICM framework.

Project: Bremner TS
B17 - Bremner Transformer Station

This project is not discussed in this submission pending further direction from the Board as to next steps for its review.

Project: Hydro One Capital Contributions
B18 - Hydro One Capital Contributions

Background

THESL's updated evidence[51] of October 31, 2012 decreased the investment in the 2012-2013 budget from $77.4 million to $71.1 million. The expected total 2013 In-Service investment[52] in this segment is $10.7 million.

Discussion and Submission

Board staff notes that the updated evidence[53] shows that $23 million of the capital contributions are related to the Bremner TS. As this project is not within the scope of this submission, Board staff will not comment on this amount, other

[50] Transcripts – Technical Conference, November 21, 2012/pages 143 - 145
[51] Tab 4/Schedule B4/Schedule A/Appendix 1, filed October 31, 2012
[52] Tab 8/Schedule 2-1/Appendix A - filed December 11, 2012
[53] Tab 4/Schedule B18/p. 2/Table 1

than to note that until the Board renders its Decision on the Bremner Project, it would be premature to approve $23 million of capital contributions related to this project.

Board staff further notes that THESL's evidence[54] indicated that two jobs have 2013 as an "Expected Completion Date of Associated Capital Project." These are the Malvern TS (engineering study and two new circuit breakers) and the Leslie MS (switchgear replacement study and switchgear estimate). The 2013 capital contributions[55] related to these two projects are $1.3 million for Malvern TS and $0.18 million for Leslie MS for a total of $1.48 million for 2013. Staff notes it is not clear from THESL's evidence what the other projects are that are coming into service in 2013 in this category and in the absence of appropriate clarification by THESL of the nature of these projects, staff submits that amounts additional to the $1.48 million referenced above should be denied by the Board.

Board staff submits that the amount of $1.48 million in 2013 is reasonable and should be approved by the Board

Project: Feeder Automation
B19 - Feeder Automation

Background

THESL's updated evidence[56] of October 31, 2012 decreased the investment in the 2012-2013 budget from $24.12 million to $22.96 million. The expected total 2013 in-Service investment[57] is $13.86 million.

Discussion and Submission

Board staff notes that during the Technical Conference, THESL indicated [58] that there is a tremendous reliability benefit to the system by implementing the proposed feeder automation projects.

[54] Tab 8/Schedule 3-3, December 13, 2012 – SEC Undertaking J3.3
[55] Tab 4/Schedule B18/pp.2 -3, Table 1 – Updated evidence, October 31, 2012
[56] Tab 4/Schedule B4/Schedule A/Appendix 1, filed October 31, 2012
[57] Tab 8/Schedule 2-1/Appendix A - filed December 11, 2012
[58] Transcripts, Technical Conference, November 21, 2012, pages 95-100

THESL further noted that the justification for the feeder automation project is the criterion shown in the Managers Summary[59] which references existing or imminent reliability degradation. THESL further noted its statement on the same page of the document that "Not all projects are non-discretionary based on all of these considerations, but every project is needed and non-discretionary based on at least one of these criteria".

Board staff notes that for this segment, THESL relied on a single criterion for non-discretionary status, that being "Imminent Reliability Degradation."[60]

Board staff submits that THESL's overall Service Quality Indicators are not deteriorating[61], as shown by the historical SAIFI, SAIDI and CAIDI from 2007 to 2011, 2012 (YTD, January to August), 2012 (E). Board staff therefore submits that this evidence shows that there is no "Imminent Reliability Degradation" to justify urgency in implementing the Feeder Automation project to the extent suggested by THESL. THESL can prioritize these expenditures to address their worst performing feeders.

Board staff concludes that the evidence indicates that while automating the feeders to improve reliability may well be good utility practice, there was no evidence presented that imminent reliability degradation would occur if the work were to be spread over a longer period.

Accordingly, Board staff submits that THESL has not demonstrated that its request for this segment is non-discretionary and as such THESL's request for this segment should be denied.

Issue 2.3: Is THESL's proposal that the Board consider ICM projects for a three-year period, severable into three successive one-year rate periods, each with its own ICM rate adder appropriate?

Board staff accepts that THESL's approach is reasonable given the qualification regarding staff's earlier comments about the appropriateness of applicants in

[59] Tab 2/p.17
[60] Tab 6E/Schedule 10-9/p. 2 "Table listing the 21 segments and 5 Non—discretionary Criteria"
[61] Tab 6A/Schedule 7-3, October 5, 2012 – Response to E.Probe IRR 3

THESL's circumstances in future using the Custom IR approach as outlined in the Board's Renewed Regulatory Framework.

Issue 2.4: Is THESL's proposal for an alternative to the standard treatment of the calculation of the ICM threshold together with the Board's practice of exempting certain ICM-approved capital expenditures from the application of the half year rule appropriate?

Background

THESL stated that in its application it follows the standard Board-approved approach for the calculation of ICM revenue requirements and rate adders. However, THESL stated that it also offered for the Board's consideration an alternative to the standard treatment of the calculation of the ICM threshold, and the practice of exempting ICM-approved capital expenditures from the application of the half-year rule, except in the year immediately preceding rebasing.[62]

THESL observed that this alternative approach provided for rate mitigation as it could result in lower cumulative revenue requirements over the three proposed years. The two specific modifications proposed by THESL were the following:

1. The ICM threshold would be calculated in accordance with the existing formula without the 20% dead band factor, and would thus represent approved depreciation in the rebasing year adjusted by growth and the PCI.
2. The ICM rate adders would be calculated for each year based on the average incremental ICM investment in that year (i.e. the approved ICM expenditure above the modified ICM threshold), calculated using the half-year rule.

Discussion

Board staff does not support the adoption of THESL's rate mitigation proposal. Board staff has similar concerns with this proposal to those outlined under Issue 1.3, which concerned THESL's proposal that the Board recognize in rates its approved 2011 year-end rate base. This is that the issues raised by this proposal

[62] Toronto Hydro-Electric System Limited EB-2012-0064 Tab 2, pp. 10-13

are generic in nature and should accordingly be dealt with an appropriate generic proceeding.

Furthermore, Board staff is of the view that THESL's proposal that capital expenditures for each year of this application be entered into the ICM module, regardless of whether or not the assets in question are coming into service in that year is inappropriate. The effect of the adoption by the Board of Board staff's proposed approach would be to mitigate the rate increases contained in the application without the necessity of adopting THESL's mitigation proposal.

Accordingly, Board staff submits that the Board should reject THESL's alternative proposal.

Issue 3.1: Is the proposed final disposition of the PILs Deferral Account 1562 appropriate, including the proposed rate riders?

Background

THESL filed its evidence dated May 10, 2012 related to the disposition of Account 1562 Deferred PILs. The PILs evidence filed by THESL in this proceeding includes tax returns, financial statements, Excel models from prior applications, calculations of amounts recovered from customers, SIMPIL[63] Excel worksheets and continuity schedules that show the principal and interest amounts in the Account 1562 Deferred PILs balance.

In its pre-filed evidence, THESL applied to refund to customers a credit balance of $6,623,814 consisting of a principal credit amount of $6,824,131 minus related debit carrying charges of $200,317.

After reviewing and answering Board staff interrogatories, THESL filed revised SIMPIL models, a PILs continuity schedule and a final balance for disposition in its responses. THESL requested to dispose a revised credit balance of $5,687,102, consisting of a principal credit balance of $5,998,666 and debit carrying charges of $311,564.

Discussion and Submission

[63] Spreadsheet implementation model for payments-in-lieu of taxes

PILs Recoveries Worksheets

In the Technical Conference, Board staff identified formula errors in the 2004 tab of the PILs Recoveries worksheets (Tab 5, Schedule M). Board staff requested THESL to verify the formulas and to correct the spreadsheet if necessary.

THESL responded to undertaking JT2.6 by filing a revised version of the PILs Recoveries worksheets, an updated PILs continuity schedule and final Account 1562 balance for disposition in Excel format. The revisions resulted in PILs recoveries in 2004 changing from $57,913,401 to $58,940,427. The credit balance to be refunded to customers increased as a result of the change in recoveries and amounts to $6,979,536 as shown in the revised continuity schedule.

Board staff submits that THESL appropriately corrected the formulas in the 2004 tab and that the revised PILs recoveries of $58,940,427 in 2004 appear reasonable.

Inventory Obsolescence Expense

THESL recorded an addition for non-deductible inventory obsolescence of $1,529,753 on TAXREC2 tab that trues up to ratepayers. Board staff asked THESL to verify the circumstances of this adjustment in 2002 and to explain if the disallowed deduction related to the period prior to October 1, 2001. The variance would not true up under the PILs methodology if the amount was incurred prior to October 1, 2001 since income from that period is not taxable and expenses are not deductible. Former municipal electric utilities became subject to PILs under section 93 of the *Electricity Act, 1998* on that date.

THESL responded to undertaking JT2.8 by confirming that the adjustment did not relate to the pre-October 1, 2001 tax period, but rather to an adjustment for a general reserve in respect of inventory obsolescence that was not deductible for tax purposes in 2002.

Board staff accepts the response as reasonable and has no further issues with this adjustment.

Excess Interest True-up

When the actual interest expense, as reflected in the financial statements and tax returns, exceeds the maximum deemed interest amount approved by the Board, the excess amount is subject to a claw-back penalty and is shown in the TAXCALC worksheet as an extra deduction in the true-up calculations.

In determining the excess interest true-up variances in the SIMPIL models, the Board-approved maximum deemed interest of $80,006,981 was deducted from actual interest expense. To be consistent with past Board decisions, THESL excluded interest on customer deposits and any effects on interest expense due to regulatory assets and liabilities. THESL also confirmed that it incurred standby fees and other IESO prudential costs and that these costs were reflected as interest expense for the purposes of calculating excess interest.

Board staff submits that the interest expense true-up calculations submitted by THESL concur with the methodology and prior Board decisions and Board staff therefore accepts these calculations as valid.

Income Tax Rates Used in SIMPIL Models Sheet TAXCALC

THESL used the maximum income tax rates as shown on page 17 of the Board's Decision in the combined proceeding for the purpose of true-up calculations. THESL's rate base was $1,810,112,688 for the applications in 2001 through 2005.

Board staff submits that the maximum income tax rates as submitted by THESL are appropriate based on its evidence.

Conclusion

Board staff supports the disposition of the revised credit balance filed in THESL's undertakings of $6,979,536, consisting of a principal credit balance of $7,025,692 and debit carrying charges to December 31, 2012 of $46,156.

Issue 3.2: Is the proposed final disposition of all remaining Deferral and Variance Accounts (i.e. the Group 1 Accounts as well as the Special

Purpose Charge Variance Account 1521) appropriate, including the proposed rate riders?

Board staff has reviewed THESL's Group 1 Deferral and Variance ("DVA") account balances and notes that the principal balances as of December 31, 2010 reconcile with the balances reported as part of the *Reporting and Record-keeping Requirements*. Board staff has no issue with THESL's proposal not to dispose of its DVA balances, as of December 31, 2010, at this time, as the balances did not exceed the disposition threshold.

Board staff supports THESL's proposal to dispose of the $574,577 debit balance, including carrying charges to April 30, 2012, in account 1521, at this time. Board staff submits that the Board may wish to direct THESL to provide an updated balance for account 1521 that includes carrying charges to December 31, 2012 in its draft rate order.

Board staff supports THESL's proposal to dispose of this balance and the $6,979,536 credit balance in account 1562 using a combined variable DVA rate rider with a one-year recovery period.

Implementation

Issue 4.1: Has THESL appropriately complied with the Final Order Regarding Suite Metering Issues dated April 26, 2012 in EB-2010-0142 including its use of the name "Competitive Sector Multi-Unit Residential" for the new Quadlogic class?

Background

The Board's Final Order dated April 26, 2012 provided THESL three directions which are outlined below:

1. THESL was directed to incorporate the rates of $17.00 for what was then described as the Quadlogic class (now "Competitive Sector Multi-Unit Residential" class) fixed charge and $0.02565 for the variable charge and $18.25 for the remaining residential class fixed charge and $0.01507 for the remaining residential class variable charge into its 2012 rate application in conformity with the Corrected Suite Metering Decision and subsequent Board directives arising from this application

2. To propose a formal name for the new Quadlogic class and text for the definition of this class to be incorporated into the proposed Tariff of Rates

and Charges filed as part of its 2012 rate application. In addition, THESL was to provide any similar necessary related changes to the residential class to appropriately reflect the creation of the new Quadlogic class in conformity with the Corrected Suite Metering Decision.

3. To provide an explanation as to why the reduction in the Residential Variable charge did not occur based on the directions of the Board in the DDO, or to file a new cost allocation model run to reflect the DDO of the Board and produce the expected reduction in the Residential Variable charge as part of its 2012 rate setting process

THESL outlined in the Manager's Summary of the present application the steps that it had taken to meet the requirements established by the Board in the above-referenced Decision.[64]

THESL also filed material which provided the expected rate increases for this class.[65] This showed that the delivery rate increases were 22.2% with a total bill increase of 10.7%.

Board staff asked THESL during the oral hearing to explain these rate increases.[66] THESL stated that there were two impacts which were causing them. The first is that the comparison shown is based on 2012 Interim rates which are Residential rates and the second is the 2012 ICM rate adder.

THESL further stated that there were two reasons why it didn't consider rate mitigation for this class. The first was that the 10.7% total bill impact was right on the borderline for rate mitigation based on the Board's criteria and the other was that the Board had been very clear that it wanted this new rate for the new rate class and mitigation would have essentially delayed the implementation of the new rate for this class.

Discussion and Submission

Board staff notes that the rate impacts shown for this class may be transitional in nature. Board staff accepts the explanations provided by THESL for the increases in rates for this class. Staff would also note that if its proposed

[64] Toronto Hydro-Electric System Limited EB-2012-0064 Tab 2, pp. 25-27
[65] Toronto Hydro-Electric System Limited EB-2012-0064 Tab 3 Schedule c2.2, p.2 of 8.
[66] Transcript, Vol. 5, pp. 186-189.

reductions in the rate relief sought by THESL are accepted by the Board, this should have the effect of reducing the rate impacts below the 10% threshold.

Issue 4.2: Are THESL's proposals relating to rate implementation appropriate for each of the years 2012, 2013 and 2014?

Effective Date

Board staff notes that THESL has proposed an effective date of June 1, 2012 for rates. Board staff accepts THESL's proposed effective date.

True-up Mechanism

Background

In its Argument-in-Chief, THESL provides its proposals for dealing with the process for working with intervenors and Board staff to develop the true-up mechanism as requested by the Board during the oral hearing.[67]

THESL proposed that as a starting point, the principles of the true-up mechanism can and must be consistent with the principles of the rate recovery methodology approved by the Board in this case. THESL expressed the view that the process for working with intervenors and Board staff would take the form of a stakeholder consultation assisted by a facilitator. In the event that a full agreement with respect to the true-up mechanism was reached by all participants in the process, the parties would request the Board's approval of the agreed-upon mechanism. In the absence of such an agreement, THESL would put forward a proposed true-up mechanism supported by such evidence as may be needed for the Board to rule on the appropriate true-up mechanism.

THESL noted that a stakeholder consultation process along these lines gave rise to an agreement of parties that was ultimately approved by the Board in EB-2010-0231 (Enbridge Gas Distribution Inc. system reliability proceeding).

[67] EB-2012-0064 Toronto Hydro Argument-in-Chief December 21, 2012, p.14.

THESL suggested that the timing of this consultation should proceed so as to allow the Board to issue a decision regarding the true-up mechanism at the time when it renders a decision on the final phase of this proceeding.

Discussion and Submission

Board staff submits that the proposals made by THESL related to the true-up process are reasonable. Staff would note that one way to achieve the objectives outlined by THESL would be to incorporate this process into the second phase of the proceeding through establishing it as a specific item on the issues list for that phase.

Conclusion

Board staff notes that THESL's EB-2012-0064 application is unique in many ways including the scale of the capital program for which approval is being sought through the ICM mechanism and the request for multi-year ICM approvals. Given the circumstances that THESL found itself in at the time of its filing of the application, Board staff is of the view that these aspects of THESL's application are reasonable.

Board staff notes that of the disallowances suggested by staff in this submission, two of the three relate to departures proposed by THESL that are clearly related to generic issues that are not in accord with Board policy or precedent and are not justified by THESL's specific circumstances. These are: (1) THESL's request for recovery of 2011 unfunded capital spending up to the approved 2011 capital spending level, and (2) THESL's request for recovery of capital spending that is not in service in the year for which ICM relief is being sought. The only reduction to THESL's requests that Board staff is submitting should be made that does not relate to established Board practice or precedent is a 15% reduction to THESL's proposed capital spending on the basis that for a relatively small number of projects, THESL has not provided adequate justification for the non-discretionary nature of the spending as it relates to the pacing of this spend during the IRM term, with the possibility of an additional reduction due to concerns Board staff has about THESL's use of its evaluation methodologies.

- All of which is respectfully submitted-