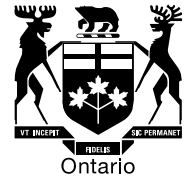


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BY E-MAIL

October 24, 2013

Attention: Ms. Kirsten Walli, Board Secretary

Dear Ms. Walli:

**Re: Toronto Hydro-Electric System Limited
Application for 2012, 2013 and 2014 IRM Rate Adjustments and ICM Rate
Adders – 2014 Update
Board File Number EB-2012-0064**

In accordance with Issues List Decision and Procedural Order No. 7 issued on October 17, 2013, please find attached the Board staff interrogatories on the referenced 2014 application update filed by Toronto Hydro-Electric System Limited.

Issues List Decision and Procedural Order No. 7 also required that Board staff state by October 24, 2013 whether or not it intends to file evidence in this proceeding. Board staff does not intend to file any such evidence.

Original Signed By

Martin Davies
Project Advisor, Applications & Regulatory Audit

Attachment

cc: Parties to EB-2012-0064 proceeding

Board Staff Interrogatories
Application for 2012, 2013 and 2014 IRM Rate Adjustments and ICM Rate Adders –
2014 Update
Toronto Hydro-Electric System Limited (“THESL”)
EB-2012-0064
October 24, 2013

Issue #1: Is THESL’s interpretation of the Phase 1 Partial Decision and Order of April 2, 2013 appropriate as it relates to Phase 2 of this proceeding?

1-Staff-1

Ref: T9.S1.pp. 5-6

THESL states that:

THESL is seeking approval of ICM rate riders for all proposed and approved capital work in ICM segments that comes into service in 2014. As noted above, this includes both previously approved 2012 and 2013 expenditures that come into service in 2014, as well as proposed 2014 eligible expenditures that will come into service in 2014.

Please state the basis for THESL’s belief that 2012 and 2013 expenditures that come into service in 2014 have been previously approved. Please provide specific references to the Board’s Partial Decision and Order of April 2, 2013 in support of this response.

1-Staff-2

Ref: T9.S1. p. 3 and p. 7

In Footnote 1 on page 3, THESL states that it has “adopted the term “Normal Capital Budget” as it was used by the OEB in the Phase 1 Decision, and as defined in the Phase 1 DRO submissions and decision.”

In the notes to Figure 1 on page 7, the explanation for one of the components of this figure “2014 Normal Capital” is as follows:

THESL’s Normal Capital expenditures coming into service in 2014. In the original filing this category was composed of all “C” segments; it has been revised for Phase 2 to reflect the OEB’s guidance from the Phase 1 Decisions to include immaterial projects.

- a) With respect to the first reference, please state the definition of “Normal Capital Budget” that THESL has derived from the noted sources and the references in the Phase 1 evidence from which it was derived.
- b) With respect to the second reference, please provide references from the Phase 1 application filing where it was stated by THESL that the Normal Capital expenditures category was composed of all “C” segments.

- c) Please state whether or not THESL uses the terms “Normal Capital Budget” from the first reference, interchangeably with the term “Normal capital expenditures” from the second reference, or if not what any differences would be.

Issue #2: Are the IRM Model filings by THESL, including the tax sharing proposal for 2014, in accordance with the Board’s requirements and, if not, are any proposed departures adequately justified?

2-Staff-3

Ref: T9.S1.p. 3 and Rate Order May 9, 2013 Appendix B Accounting Order

In the first reference, THESL states that:

Since actual in-service amounts for 2013 are not available at the time of preparing this evidentiary update, for the purposes of Phase 2, THESL is filing CWIP amounts resulting from approved 2012 and 2013 ICM projects on the same basis as in its Phase 1 evidence and relying on the true-up process to address any variances.

- a) Please provide a table that would show for each of the segments approved in Phase 1, the following information:
- i) 2012 Board Approved in-service amounts (ISA)
 - ii) 2012 Actual ISA
 - iii) 2013 Board Approved ISA
 - iv) 2013 Actual ISA to date (please specify most recent month of actuals used)

Please provide any necessary explanations for any significant variances.

- b) With respect to this update and the second reference, please state whether THESL would presently anticipate a variance amount to be refunded to or collected from customers at the time of THESL’s next rebasing application.

2-Staff-4

Ref: T4.SchE1.1 pp. 9-10 and T9.SchD1 pp. 10-11

In THESL’s Phase 2 filing, it has recalculated the threshold test from that used in Phase 1 with the effect that the threshold drops from approximately \$173 million to approximately \$164 million.

The first reference is to the threshold parameters and the threshold test used in Phase 1. This shows a price cap index of 0.68% and a growth factor of -0.40%. These are used in calculating the \$173 million threshold.

The second reference is to the threshold parameters and the threshold test used in Phase 2. This shows an updated 2014 price cap index of 0.28% and an unchanged growth factor of -0.40%. These are used in calculating the \$164 million threshold.

From the above, it appears that for the Phase 2 threshold calculation, THESL has updated the price cap index threshold parameter to the 2014 number, but for the growth parameter has continued to use the 2013 Phase 1 calculation.

- a) Please confirm that this is what THESL has done in undertaking the threshold tests, or if not, please state what has been done.
- b) Please recalculate the Phase 2 threshold using the 2014 growth calculation, i.e. a 2012 Actual numerator and the 2011 Re-Based Forecast number of \$528,018,642 as the denominator rather than the 2013 growth calculation that has been used.

2-Staff-5

Ref: T9.S1. p. 14

Please provide a version of Table 1 that shows the same information on a May 2012 as-applied-for basis. Please provide any explanations that THESL considers necessary.

2-Staff-6

Ref: T9.SchA1. p. 1 and T9.SchB1

The first reference is to the Capital Summary Table which contains a column under the main heading "Phase 2: Proposed Capital Spending" entitled "2014 Capex." For segment B1, this shows an amount of \$77.86 million.

The second reference is to the detailed information provided by THESL on the B1 segment. On page 1, it is stated that "The total cost of the 2014 ICM work program (not including spending related to approved Phase 1 jobs) is \$91.06 million. Relative to the May 2012 filing, forecast 2014 capital expenditures have increased by approximately \$16 million.

Please explain how the \$77.86 million amount in the first reference relates to the \$91.06 million amount in the second reference and more generally for each of the project segments how the information contained in the individual project summaries relates to the Capital Summary Table.

2-Staff-7

Ref: T9.SchA1 to C4 and T9.SchB1, p.4

In the referenced sections, THESL refers to “continuing priority needs of the system” when discussing the changes in these segments that have occurred relative to the May 2012 filing.

The second reference which relates to segment B1 contains a statement that “Relative to May 2012 filing, 19 new jobs have been added to the segment and two jobs have been removed.”

Using this specific example, please explain how within the context of “continuing priority needs of the system” it was determined that these changes should be made.

2-Staff-8

Ref: T9.S1.p. 14 and T9.SchB1, pp.2-3 and T9 SchA1 to C4

The first reference shows that for segment B1 Total CAPEX In-Service for 2014 is forecast as \$59.77 million.

The second reference’s Table 1 shows that the 2014 work program for this segment consists of 36 jobs having an estimated cost of \$91.06 million.

- a) Please state which of these 36 jobs are expected to be completed in 2014 and how THESL made this determination.
- b) Please provide a similar analysis for segments B4, B5, B6, B9, B10, B12 and B13.2 specifying which of the jobs for each of these segments constitute the in-service amounts and how these determinations were made.

2-Staff-9

Ref: Board Staff Submission Toronto Hydro-Electric System Limited Jan. 10, 2013. p. 21

Board staff submitted that for this segment THESL had only provided justification for the replacement of 7 of the 12 transformers on a non-discretionary basis.

Please state whether the replacement of these transformers was or will be completed in 2013, or if not whether this will be achieved in 2014.

2-Staff-10

Ref: Partial Decision and Order April 2, 2013, p.38

The Board's findings for Segments B13.1 and B13.2 were as follows:

The Board agrees with Board Staff, VECC and SEC that as far as the TS stations with health indices of "Fair", the work does not need to be undertaken during the IRM period as there does not appear to be any imminent risk of failure, based on THESL's assessment of the assets. The Board accepts the need to proceed with the 4 TS in the IRM period.

Please state whether the replacement of the switch gear in the 4 TSs identified above was or will be completed in 2013, or if not whether this will be achieved in 2014.

2-Staff-11

Ref: T4.SchB17. p. 31 and Partial Decision and Order April 2, 2013, pp.51-52

The first reference Figure 10, as updated October 31, 2012, is a chart of the tasks required to implement the Bremner (now Copeland) TS project.

In the second reference on page 51, the Board states that it will review Bremner costs to date during Phase 2 of this proceeding and again once it is in-service.

In the second reference on page 52, the Board approved a total recovery for the Bremner project of \$184.1 million.

- a) Please update Figure 10 to reflect the current status of the project. Please discuss any significant changes which have occurred since this chart was filed on October 31, 2012.
- b) Please provide the information outlined in the table below for this project.

Item	Description	Cost Estimates (\$ millions)		Percentage Of Task/Acquisition Completed to Date
		Cost Estimate Reflecting Board approved Amount for 2014 In Service	Current Estimate	
Station Cost	Land			
	Building			
	Substation Equipment			
	Distribution Modification			
	Design Substation			
Tunnel	Design			
	Construction			
HONI	Capital Contribution			
Total Cost				

2-Staff-12

Ref: T9.SchC1

On page 1 of the above reference, THESL notes that the Board had in the Partial Decision and Order determined that THESL had presented insufficient evidence on the C1 sub category “Continuing Projects and Emerging Issues” proposed expenditures for the Board to determine whether or not they were non-discretionary. THESL stated that it had accordingly broken down this sub category into four sub categories, one of which is “Critical Stations Work.” There are seven components to this sub category, one of which is 6.6, Station Contingency Service which is described as being to provide Copeland station with stand-by service from Esplanade.

- a) Please explain why the expenditures included in the seven components are not included with the other costs related to the relevant municipal or transformer station (e.g. Job 6.6 to be included with the Copeland TS – approved for construction)
- b) Please state whether or not there are any other Copeland expenditures treated similarly and, if so, what they are.

2-Staff-13

Ref: T4.SchC2. p. 1.Table1 and T9.SchC2.p. 1. Table 1

The Table below shows capital expenditure estimates for two of the projects in this category from the Phase 1 filing and as updated for Phase 2.

Project Name	Tab 4/S C2/p. 1/Table 1 [Updated 2012 Oct 31]			Tab 9/S C2/p. 1/Table 1
	2012 (\$M)	2013 (\$M)	2014 (\$M)	2014 (\$M)
Corporate Application Upgrade	1.09	1.12	0.45	4.00
Geospatial Information System & Outage Management System Upgrade	0.40	2.63	3.57	0.50

- a) Please state the percentage of completion that is anticipated for the Geospatial Information & Outage System Upgrade anticipated by the end of 2013.
- b) Please explain the increase in the capital expenditures for the Corporate Application Upgrade from \$0.45 million which was the Phase 1 estimate to \$4.0 million in Phase 2. Please also list the systems that are expected to be in-service by the end of 2013 and 2014 respectively.

2-Staff-14

Ref: T9.Sch 2-5: 2014 Deferral and Variance Details

With regards to Accounts 1588 Power and Account 1589 Global Adjustment (or Account 1588 –Sub Account Global Adjustment), THESL shows no variance in the “Variance RRR vs. 2012 Balance” column in the DVA continuity schedule. Board Staff notes that the RRR balances on the continuity schedule do not agree with the balances THESL filed with the Board. The differences are as follows:

		RRR 2.1.7 as Reported to the Board	DVA Continuity Schedule - 2012 Balance and RRR Balance			Difference with RRR
		Total Balance	Principal	Interest	Total Balance	
1588	RSVA POWER	29,694,365	5,597	165	5,762	29,688,604
1589	RSVA GA	0	28,496,060	1,192,544	29,688,604	(29,688,604)

- a) Please explain why there are differences in Accounts 1588 and Account 1589 between the amounts filed with the Board in RRR 2.1.7 and the amounts on the DVA continuity schedule.
- b) Please explain the nature of the \$0 balance as reported to the Board for Account 1589.
- c) Please explain the nature of the \$5,762 balance in the DVA continuity schedule for Account 1588.
- d) Please explain if THESL’s approach for accounting for Accounts 1588 and 1589 conforms with the Accounting Procedures Handbook.

Issue #3: Is THESL’s application of the ICM criteria appropriate?

3-Staff-15

Ref: T2 and T9.S1. p. 6

THESL states that:

As in Phase 1, THESL considers its entire capital budget to be non-discretionary. THESL uses other criteria beyond the non-discretionary nature of the spending (“discrete”, for example) to distinguish between spending which will be funded with existing rates up to the materiality threshold (including some portion that will be unfunded through the use of the Deadband) and spending that will not be funded through existing rates but rather through ICM riders that will be tracked and subject to true up.

Please confirm that the “other criteria” referenced above are identical to those outlined in the Phase 1 Manager’s Summary, or if there are any differences, please state what they are and why the changes were made.

3-Staff-16

Ref: T9.S1. p. 6

THESL states that:

As illustrated in Figure 1, to the extent that THESL's non-discretionary, non-ICM capital work and pre-2012 CWIP do not reach the ICM materiality threshold, THESL has designated a portion of the approved Copeland TS ICM project to be funded within its Normal Capital budget. This portion of the Copeland TS project would not be funded through the ICM rate rider.

- a) Please provide further explanation as to why THESL has made the referenced designation and why it believes such a designation would be in compliance with the Board's Partial Decision and Order of April 2, 2013.
- b) In the event THESL had not designated a portion of the approved Copeland TS ICM project to be funded within its Normal Capital budget, please state what the impact would have been on THESL's requested recoveries in this application.

3-Staff-17

Ref: T9.S1. p. 6

On this page, THESL states that among other things it seeks the Board's determination that "THESL's 2014 Normal Capital Budget is deemed non-discretionary and inclusive of pre-2012 CWIP meets or exceeds the ICM materiality threshold"

- a) Please provide a detailed explanation as to why THESL believes that the Board should deem its normal capital budget as non-discretionary including discussion as to why such a finding would be in accord with the Board's Filing Requirements and any precedents THESL believes may exist in support of such a finding.
- b) In the event the Board was to decide not to deem THESL's entire normal capital budget as non-discretionary, please state what the impact would be on THESL's total 2014 Eligible ICM recovery amount.
- c) Please state whether or not THESL would anticipate making any discretionary capital expenditures in 2014 or subsequent years. If yes, please state when such expenditures would be expected to occur and what type of expenditures they would be.

Issue #4: Is THESL's interpretation of the ICM Monitoring and Tracking Requirements accurate?

4-Staff-18

Ref: T9.S1.pp. 8-11

Please state whether or not the reprioritization (inclusive of job substitutions, deletions and addition) of work activities within a specific segment (or project) discussed in "Confirmation of ICM Monitoring and Tracking Requirements" will ultimately result in changes to the final capital cost from the Board-approved amount for that particular segment.

4-Staff-19

Ref: T9.S1.pp. 8-11

Please state how THESL believes inter-segment cost changes due to reprioritization would be distinguishable from cost overruns within a segment?

4-Staff-20

Ref: T9.S1.pp. 8-11 and T9.SchA1.p. 1

Please identify the nature and associated amount of the expected changes due to reprioritization within the various segments as outlined in the second reference and provide the estimated cost variance impact on the requested ICM incremental revenue requirement of each reprioritization.

4-Staff-21

Ref: T9.S1.p.1 and EB-2012-0064 Decision and Order (May 9, 2013), Appendix E, Schedule 2

In light of the name change of the Bremner Transformer Station project noted in the first reference to the Copeland Transformer Station project, please update and revise the Draft Accounting Order in the second reference to reflect name changes to the six sub-accounts entitled "Bremner..." to "Copeland (Formerly Bremner)..."

Issue #5: Are THESL's proposed 2014 ICM Rate Riders, comprised of approved 2012 and 2013 expenditures and proposed 2014 expenditures, appropriate?

Issue #6: Are THESL's proposals relating to rate implementation, including the disposition of the smart meter accounts, currently before the Board as a stand-alone application, appropriate for the year 2014?

Board staff has no interrogatories on these issues.

Issue #7: For proposed capital projects which have changed significantly since Phase 1 of this proceeding, has THESL provided sufficient evidence including consultant reports, business cases and consideration of alternatives, to adequately justify them?

7-Staff-22

Ref: T9.SchB9. p. 2 and T4.SchB9. p.5

The first reference from the Phase 2 application states that:

There are three roof rebuild jobs and two vault rebuild jobs scheduled for the 2014 ICM work program. This differs from the two vault decommissionings, six roof rebuilds and nine vault rebuilds in the evidence for 2014 originally filed in May 2012. The total cost of the proposed 2014 vault jobs is \$2.26 M, which represents a reduction of \$13.3M from the estimated 2014 costs originally filed in May 2012.

The second reference from the Phase 1 application for the same segment states that:

The network vaults associated with the secondary network system were constructed in the 1950s and 1960s, mainly beneath the sidewalks in the busy downtown Toronto core. Today, there are many critical structural issues inherent with the condition of these assets which must be addressed immediately in order to mitigate potential safety risks to the public and to THESL's workers, as well as the potential negative impact on the reliability and prudent operation of THESL's distribution system.

Under the Network Vaults and Roofs segment, THESL proposes to eliminate immediate structural vault deficiencies of 26 high risk vaults identified by the ACA as being in "poor" or "very poor" condition in 2012-2013. This segment includes decommissioning 3 vaults at an estimated cost of \$0.1M, rebuilding 6 vault roofs at an estimated cost of \$2.2 million and completely rebuilding 17 vaults at an estimated cost of \$19.3M. The estimated total cost of the segment over 2012-2013 is \$21.47M.

Please provide a full explanation for the significant reduction in the proposed spending for this segment between Phase 1 and Phase 2 given the statement in the Phase 1 application referenced above regarding the many structural issues needing to be addressed immediately to mitigate safety risks to the public and THESL's workers. Please include a reconciliation of the Phase 1 reference to the need to eliminate immediate structural vault deficiencies of 26 high risk vaults to the Phase 2 evidence which appears to suggest a lower number of such vaults need to be replaced.

7-Staff-23

Ref: T9.SchB10. p. 1

It is stated that the number of Fibertop Network Units to be addressed in 2014 has declined by 22.

- a) Please explain the reasons for this decline.
- b) Please state how many jobs are estimated to have been completed and in-service by the end of 2013 and how many are expected to be completed and in-service by the end of 2014.