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October 28, 2022

Via RESS

Ms. Nancy Marconi
Registrar
Ontario Energy Board
PO Box 2319
2300 Yonge Street, 27th floor
Toronto, ON M4P 1E4

Dear Ms. Marconi:

Re: Toronto Hydro-Electric System Limited ("Toronto Hydro")
Application to Finalize 2023 Electricity Distribution Rates and Charges
OEB File No. EB-2022-0065 – Interrogatory Responses

Please find enclosed Toronto Hydro's responses to interrogatories received on October 17, 2022 from OEB Staff and the Association of Major Power Consumers in Ontario ("AMPCO"), and the officer's certificate that the responses do not contain any personal information.

Please contact me directly if you have any questions.

Respectfully,

Deniz H. Oktem
Senior Manager, Regulatory Services
Toronto Hydro-Electric System Limited

OFFICER'S CERTIFICATE – PERSONAL INFORMATION

As the Executive Vice President, Public and Regulatory Affairs and Chief Legal Officer of Toronto Hydro-Electric System Limited ("Toronto Hydro"), I hereby certify that Toronto Hydro's interrogatory responses, filed in support of the 2023 Custom Incentive Rate-setting Update Application (EB-2022-0065) do not include any personal information unless it is filed in accordance with Rule 9A of the OEB's Rules and the Practice Direction to the best of my knowledge.

This certificate is given pursuant to Chapter 1 of the Ontario Energy Board's *Filing Requirements for Electricity Distribution Rate Applications* (revised April 18, 2022).

DATED this 28th day of October, 2022.

Amanda Klein
Executive Vice President,
Public and Regulatory Affairs and
Chief Legal Officer

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 1:

Reference(s): **OEB Letter, Smart Metering Charge to be Charged by Electricity Distributors from January 1, 2023 – December 31, 2027**
Proposed Tariff of Rates and Charges (Excel)

On September 8, 2022, the OEB issued the letter in reference 1 above with regards to the Smart Metering Entity Charge (SMC) to be charged by distributors from January 1, 2023 to December 31, 2027. Effective January 1, 2023, the retail SMC to be charged and collected by electricity distributors from applicable Residential and General Service <50kW customers will be $0.42 per smart meter per month.

a) Given that Toronto Hydro's uses a 30-day basis for fixed based rates, please provide the calculation of the SMC for Toronto Hydro.

b) Please incorporate the updated SMC on the proposed Tariff of Rates and Charges (Excel) and Bill Impacts model, and re-file both with Toronto Hydro's responses.

RESPONSE:

a) The calculation for Smart Meter Entity Charge (SME) on per 30 days basis is as follows:
$0.42 per month x 12 months = $5.04
$5.04/365 days x 30 days = $0.41 per 30 days

b) The revised Tariff of Rates and Charges and Bill Impacts model[1] (excels only) are attached as Appendix A and Appendix B to this interrogatory response, respectively. Please also see Table 1 below for an updated version of the Summary of Total Bill Impacts table from the Manager's Summary (Tab 2, Schedule 1 at page 15, Table 6)

Table 1: Updated Summary of Total Bill Impacts

Rate Classes	$/30 days	%
Residential (750 kWh, TOU RPP)	$5.00	3.9%
Competitive Sector Multi Unit Residential (300 kWh, TOU RPP)	$3.07	4.4%
General Service <50 kW (2,000 kWh, TOU RPP)	$14.79	4.3%
General Service 50-999 kW (200 kVA, Spot, Class B)	$248.44	2.0%
General Service 1,000-4,999 kW (2,000 kVA, Spot, Class B)	$2,528.62	1.9%
Large User (9,700kVA, Spot, Class A)	$25,873.45	4.2%
Unmetered Scattered Load (285 kWh, RPP)	$2.72	4.6%
Street Lighting (2,700 kVA, Spot, Class B)	$8,854.17	3.4%

[1] Please note that Toronto Hydro has also updated the Bill Impacts model with the latest Regulated Price Plan ("RPP") rates released on October 21, 2022.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 2:

Reference(s): Toronto Hydro 2023 Rate Generator Model, Tab 11 – RTSR – UTRs & Sub-Tx, September 6, 2022

OEB staff notes that the OEB's Rate Generator Model was updated to reflect the current Hydro One Sub-Transmission Rates on Tab 11. OEB staff notes that certain Hydro One Sub-Transmission rates on the tab noted in the reference above do not reconcile to the applicable rates.

a) Please update Tab 11 for the required rates and file Toronto Hydro's updated replica Rate Generator Model.

b) If applicable, please incorporate any changes to the RTSRs on the proposed Tariff of Rates and Charges (Excel) and to the Bill Impacts model, and re-file both with Toronto Hydro's responses.

RESPONSE:

a) Please see Appendix A to this interrogatory response for the updated replica Rate Generator Model with the required updates to the rates in Tab 11.

b) No changes to the RTSRs in the proposed Tariff of Rates and Charges and Bill Impacts model are necessary as the Hydro One Sub-Transmission rates are not applicable for Toronto Hydro.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 3:

Reference(s): EB-2022-0065, Updated Manager's Summary, September 6, 2022, page 4 of 15

In accordance with the OEB's direction in Toronto Hydro's Custom IR Application 2020-2024,[1] two accounts (i.e., CRRRVA and the PILs and Tax Variances – CCA Changes), were approved for disposition beginning January 1, 2023.[2]

In the current application, Toronto Hydro has added these rate riders to its proposed Tariff of Rates and Charges beginning January 1, 2023. Please provide a table showing the calculation of rate riders for all applicable rate classes for these accounts.

RESPONSE:

Please refer to EB-2018-0165, Draft Rate Order, updated February 12, 2020, Schedule 13, at page 19, attached as Appendix A to this response.[3]

[1] EB-2018-0165
[2] *Ibid*, Draft Rate Order, Updated February 12, 2020, Page 20 of 32
[3] The full excel version of Schedule 13 (Continuity Schedule) is available at: https://www.rds.oeb.ca/CMWebDrawer/Record/667997/File/document

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Group 2 Rate Riders Development

% to split by Class

		Total	Residential	CS Muti-Units Residential	GS < 50 kW	GS - 50 to 999 kW	GS > 1,000 to 4,999 kW	Large User =>5,000 kW	Street Lighting	USL (Connections)	USL (Customer)
	Allocators										
	2017 Distribution Revenue	100.0%	39.7%	3.7%	14.2%	27.0%	8.5%	4.4%	2.0%	0.5%	0.0%
	2020 Revenue Offsets	100.0%	49.2%	4.0%	20.4%	18.3%	3.5%	1.5%	2.3%	0.8%	0.0%
	Stranded Meters	100.0%	51.4%	0.0%	31.8%	16.8%	0.0%	0.0%	0.0%	0.0%	0.0%
	Monthly Billing Conversion	100.0%	89.6%	0.0%	10.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Distribution Revenue GS>50 kW	100.0%	0.0%	0.0%	0.0%	63.6%	20.0%	10.5%	4.7%	1.2%	0.0%
	AR Credits	100.0%	83.5%	0.0%	15.0%	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%

Allocation of Balances

		Account Number	Total	Residential	CS Muti-Units Residential	GS < 50 kW	GS - 50 to 999 kW	GS > 1,000 to 4,999 kW	Large User =>5,000 kW	Street Lighting	USL (Connections)	USL (Customer)
1	Stranded Meters	1555	- 1,417,486	- 728,743	-	- 450,702	- 238,041	-	-	-	-	-
2	Wireless pole attachments Rev	1508	- 694,304	- 341,885	- 27,631	- 141,792	- 127,090	- 24,360	- 10,307	- 15,831	- 5,409	-
3	Impact for USGAAP (Actuarial loss on OPEB)	1508	6,441,837	2,556,176	238,883	911,539	1,740,482	548,248	285,954	127,693	32,862	-
4	IFRS-CGAAP PP&E	1575	- 1,558,360	- 618,371	- 57,789	- 220,512	- 421,044	- 132,628	- 69,176	- 30,890	- 7,950	-
5	CRRRVA	1508	- 81,836,422	- 32,473,400	- 3,034,748	- 11,580,091	- 22,110,896	- 6,964,891	- 3,632,728	- 1,622,196	- 417,473	-
6	Monthly Billing	1508	11,425,564	10,242,752	-	1,182,813	-	-	-	-	-	-
7	External Driven Capital	1508	- 3,171,984	- 1,258,671	- 117,627	- 448,845	- 857,019	- 269,960	- 140,805	- 62,876	- 16,181	-
8	OPEB cash vs accrual	1508	7,116,183	2,823,763	263,890	1,006,960	1,922,679	605,640	315,888	141,060	36,302	-
9	Derecognition	1508	- 34,178,339	- 13,562,260	- 1,267,439	- 4,836,334	- 9,234,442	- 2,908,832	- 1,517,180	- 677,497	- 174,354	-
10	Deferred Gain on disposals	-	- 11,811,234	- 4,686,800	- 437,997	- 1,671,324	- 3,191,207	- 1,005,224	- 524,302	- 234,127	- 60,253	-
11	Operations Consolidation Plan Sharing Variance	1508	- 73,723,293	- 29,254,040	- 2,733,888	- 10,432,060	- 19,918,858	- 6,274,403	- 3,272,586	- 1,461,374	- 376,085	-
12	Excess Expansion Deposits	-	- 11,095,840	-	-	-	- 7,060,483	- 2,224,039	- 1,160,008	- 518,002	- 133,308	-
13	Accounts Receivable Credits	-	- 3,493,675	- 2,916,101	-	- 523,282	- 53,355	- 425	-	-	- 512	-
14	PILs and Tax Variance	1592	- 11,604,096	- 4,604,606	- 430,316	- 1,642,013	- 3,135,242	- 987,595	- 515,107	- 230,021	- 59,196	-
15	Foregone Revenue Fixed	1595	- 3,799,864	- 3,565,108	- 284,494	168,856	- 49,223	- 49,639	- 18,475			- 1,782
16	Foregone Revenue (per connection)	1595	- 19,197							- 16,518	- 2,680	
17	Foregone Revenue Variable	1595	- 173,123			436,156	- 873,476	240,576	166,949	- 53,301	- 90,027	-
	Total		- 213,593,633	- 78,387,292	- 7,889,155	- 28,240,631	- 63,607,215	- 19,447,531	- 10,091,883	- 4,653,881	- 1,274,263	

Load / Customers / Devices / Connections Forecast

			Total	Residential	CS Muti-Units Residential	GS < 50 kW	GS - 50 to 999 kW	GS > 1,000 to 4,999 kW	Large User =>5,000 kW	Street Lighting	USL (Connections)	USL (Customer)
	2020 Forecast Dist Billing Determinants (Jan - Dec)											
	kVA		40,232,337	NA	NA	NA	24,899,004	10,406,674	4,600,360	326,300	NA	-
	kWh		23,377,600,153	4,531,218,421	297,763,685	2,299,006,608	9,608,309,249	4,595,015,405	1,889,478,427	116,219,746	40,588,612	-
	Number of Customers		784,280	615,118	85,852	71,599	10,417	430	38	1	-	825
	Devices/Connections		177,454	NA	NA	NA	NA	NA	NA	165,274	12,180	-

Rate Rider Calculation

		Account Number	Proposed Recovery Period (years)	Amount	Allocators	Rate Rider Start Year	Rate Rider End Year	Billing Unit	Residential	CS Muti-Units Residential	GS < 50 kW	GS - 50 to 999 kW	GS > 1,000 to 4,999 kW	Large User =>5,000 kW	Street Lighting	USL (Connections)	USL (Customer)
1	Stranded Meters	1555	4.00	- 1,417,486	Stranded Meters	2021	2024	Customers [1]	- 0.02	-	- 0.13	- 0.47	-	-	-	-	-
2	Wireless pole attachments Rev	1508	4.00	- 694,304	2020 Revenue Offsets	2021	2024	Cust.+ Usage [1]	- 0.01	- 0.01	- 0.00002	- 0.00130	- 0.00060	- 0.00060	- 0.01200	- 0.00003	-
3	Impact for USGAAP (Actuarial loss on OPEB)	1508	0.83	6,441,837	2017 Distribution Reve	2020	2020	Cust.+ Usage [1]	0.41	0.27	0.00048	0.08270	0.06240	0.07360	0.46320	0.00097	-
4	IFRS-CGAAP PP&E	1575	0.83	- 1,558,360	2017 Distribution Reve	2020	2020	Cust.+ Usage [1]	- 0.10	- 0.07	- 0.00012	- 0.02000	- 0.01510	- 0.01780	- 0.11200	- 0.00024	-
5	CRRRVA	1508	2.00	- 81,836,422	2017 Distribution Reve	2023	2024	Cust.+ Usage [1]	- 2.17	- 1.45	- 0.00252	- 0.43790	- 0.33010	- 0.38940	- 2.45170	- 0.00514	-
6	Monthly Billing	1508	2.83	11,425,564	Monthly Billing Convers	2020	2022	Cust.+ Usage [1]	0.48	-	0.00018	-	-	-	-	-	-
7	External Driven Capital	1508	0.83	- 3,171,984	2017 Distribution Reve	2020	2020	Cust.+ Usage [1]	- 0.20	- 0.14	- 0.00023	- 0.04070	- 0.03070	- 0.03620	- 0.22810	- 0.00048	-
8	OPEB cash vs accrual	1508	0.83	7,116,183	2017 Distribution Reve	2020	2020	Cust.+ Usage [1]	0.45	0.30	0.00053	0.09140	0.06890	0.08130	0.51170	0.00107	-
9	Derecognition	1508	1.00	- 34,178,339	2017 Distribution Reve	2022	2022	Cust.+ Usage [1]	- 1.81	- 1.21	- 0.00210	- 0.36580	- 0.27570	- 0.32530	- 2.04790	- 0.00430	-
10	Deferred Gain on disposals		1.83	- 11,811,234	2017 Distribution Reve	2020	2021	Cust.+ Usage [1]	- 0.34	- 0.23	- 0.00040	- 0.06900	- 0.05200	- 0.06130	- 0.38600	- 0.00081	-
11	Operations Consolidation Plan Sharing Variance	1508	1.83	- 73,723,293	2017 Distribution Reve	2020	2021	Cust.+ Usage [1]	- 2.13	- 1.43	- 0.00248	- 0.43040	- 0.32440	- 0.38270	- 2.40940	- 0.00505	-
12	Excess Expansion Deposits		4.00	- 11,095,840	Distribution Revenue G	2021	2024	Cust.+ Usage [1]	-	-	-	- 0.06990	- 0.05270	- 0.06220	- 0.39140	- 0.00082	-
13	Accounts Receivable Credits		4.00	- 3,493,675	AR Credits	2021	2024	Cust.+ Usage [1]	- 0.10	-	- 0.00006	- 0.00050	-	-	-	-	-
14	PILs and Tax Variance	1592	2.00	- 11,604,096	2017 Distribution Reve	2023	2024	Cust.+ Usage [1]	- 0.31	- 0.21	- 0.00036	- 0.06210	- 0.04680	- 0.05520	- 0.34760	- 0.00073	-
15	Foregone Revenue Fixed	1595	1.83	- 3,799,864		2020	2021	Customers [1]	- 0.26	- 0.15	0.11	- 0.21	- 5.18	- 21.80	-	-	- 0.10
16	Foregone Revenue (per connection)	1595	1.83	- 19,197		2020	2021	Customers [1]	-	-	-	-	-	-	0.00	- 0.01	
17	Foregone Revenue Variable	1595	1.83	- 173,123		2020	2021	Usage [1]	-	-	0.00010	- 0.01890	0.01240	0.01950	- 0.08790	- 0.00121	-

[1] "Customers" means Residential, GS < 50 kW and GS 50 to 999 kW rates recovery are based on $/cust/30 days
[1] "Cust.+Usage" means Residential and CSMUR rates recovery are based on $/cust/30 days and all other Rate classes recovery are based on $/kWh or $/kVA or $/Device or $/Connection

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 4:

Reference(s): **Toronto Hydro 2023 Rate Generator Model, Tab 16 – Rev2Cost_GDPIPI**
EB-2022-0065, Tab 6, Schedule 1 – Current Tariff of Rates and Charges

OEB staff notes that the current monthly fixed charge for the Standby Power rate class does not reconcile between the Rate Generator Model and Toronto Hydro's current Tariff of Rates and Charges. The Rate Generator Model has a charge of $253.70, while Toronto Hydro's Tariff has a charge of $254.48.

Please correct the Rate Generator Model and ensure any changes are reflected on the proposed Tariff of Rates and Charges (Excel).

RESPONSE:

The Rate Generator Model and proposed Tariff of Rates and Charges have been updated accordingly. Please see Appendix A to interrogatory 1-Staff-2 and Appendix A to 1-Staff-1, respectively.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 5:

Reference(s): **EB-2022-0065, Updated Manager's Summary, September 6, 2022, page 3 of 15**
Toronto Hydro 2023 Rate Generator Model, Tab 16 – Rev2Cost_GDPIPI

The Rate Generator Model filed adopts the OEB's 2022 Inflation Factor as a proxy. Toronto Hydro proposes to update the model with the 2023 Inflation Factor.

a) If announced by the OEB and available at the time of filing Toronto Hydro's interrogatory responses, please update the Rate Generator Model for the 2023 inflation factor and file the updated model.

b) Please also file an updated Bill Impacts model reflecting the updates.

RESPONSE:

a) The OEB announced the 2023 inflation factor on October 20, 2022[1] and Toronto Hydro has updated the Rate Generator accordingly. Please see Appendix A to Toronto Hydro's response to interrogatory 1-Staff-2.

[1] Ontario Energy Board, OEB Letter 2023 Inflation Parameters (October 20, 2022).

b) Please see Appendix A and Appendix B to Toronto Hydro's response to interrogatory 1-Staff-1 for updated Tariff sheets and Bill Impacts model, which reflect the 2023 inflation factor.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 6:

Reference(s): **EB-2022-0065, 2023 Rate Generator Model, Tab 3**
EB-2022-0065, Update of Evidence Letter to the OEB, September 6, 2022
EB-2014-0116, 2015 Custom IR, Revised Draft Rate Order filed January 26, 2016, page 17 and 21

In the current proceeding, Toronto Hydro is requesting the disposition of Account 1595, Disposition and Recovery/ Refund of Regulatory Balances (2016).

Toronto Hydro confirmed that the "Disposition and Recovery/ Refund of Regulatory Balances (2016 and pre-2016)" account referenced in the 2023 Rate Generator Model relates only to the 2016 sub-account of Account 1595. Toronto Hydro further stated that while these 2016 sub-account amounts relate to the 2015 Custom IR proceeding, the balances were transferred to Account 1595 in March of 2016.[1]

In cell G31 of the 2023 Rate Generator Model, Tab 3, Toronto Hydro has recorded a credit of $45,304,160 for OEB-Approved Disposition during 2016 (for principal) and in cell L31 a credit of $131,074 (for carrying charges).

However, in the 2015 Custom IR proceeding, the evidence is not clear what was approved by the OEB for the disposition of Group 1 and Group 2 Deferral and Variance Accounts

[1] Toronto Hydro noted that this transfer was in alignment with the March 1, 2016 rates implementation approved in that application. Toronto Hydro confirmed that this sub-account contains no balances from the 2015 or any prior-year sub-accounts.

(DVAs). Page 17 and page 21 of the Draft Rate Order of the 2015 Custom IR proceeding show different DVA balances. For example, a credit of $23.3 million of "POEB Tax Savings" is shown on page 21, but not page 17. OEB staff is unable to locate a DVA continuity schedule to support what was disposed in the 2015 Custom IR proceeding. As a result, OEB staff is not clear what has been disposed.

Regarding Account 1595 (2016) amounts in the 2023 Rate Generator Model, OEB staff also notes that the amount of carrying charges of a credit of $1,007,173 being requested for clearance in the current proceeding is high, compared to the debit principal balance of $1,851,187, as well as opposite signs (credit versus debit).

a) Please explain whether the principal (credit of $45,304,160) and interest (credit of $131,074) amounts included in the 2023 Rate Generator Model for Account 1595, Disposition and Recovery/ Refund of Regulatory Balances (2016) OEB-Approved Disposition during 2016 are correct. If not, please update the relevant evidence as applicable.

b) Please provide a reconciliation between the principal and interest amounts included in the 2023 Rate Generator Model and the amounts approved by the OEB in the 2015 Custom IR proceeding and refer to the relevant evidence filed in the 2015 Custom IR proceeding.

c) Regarding Account 1595 (2016), please explain the high credit balance of $1,007,173 for carrying charges, as compared to the debit principal balance of $1,851,187, as well as being opposite signs (credit versus debit).

RESPONSE:

a) Toronto Hydro has revised the principal and carrying charge amounts for Account 1595, Disposition and Recovery/ Refund of Regulatory Balances (2016) OEB-Approved Disposition during 2016, in the revised continuity schedule as explained further below (please refer to Rate Generator Model at Appendix A to Toronto Hydro's response to interrogatory 1-Staff-2). Please see Table 1 for a reconciliation to the dispositions approved in the 2016 Decision related to the 2015 Custom IR Application. Toronto Hydro has provided explanations for each of the variances below, which do not affect the final balance that Toronto Hydro is proposing to clear. Toronto Hydro notes that it followed the requirements of the OEB's Rate Generator Model continuity schedule to record liabilities as debits and receivables as credits in the "OEB-Approved Disposition" columns.

Table 1: Reconciliation of 2015 CIR Approved Disposition to Rate Generator Model Continuity Schedule for 1595 (2016) Amounts

	2015 CIR Approved Disposition		Rate Generator Model Continuity Schedule		Total Variance
	Principal	Carrying Charge	Principal	Carrying Charge	
Low Voltage Variance (1551)	1,192,584	64,774	1,257,358	-	-
RARA Variances (2013)	(2,749,798)	859,851	(1,788,465)	-	(101,482)
PILs Variance for 2006 and Subsequent Years (1592)	(2,314,616)	(183,739)	(2,498,355)	-	-
PILs Variance for 2006 and Subsequent Years (1592) - HST	(1,100,000)	(81,619)	(1,181,619)	-	-
2015 Foregone Revenue	61,131,172	-	61,131,172	-	-
2016 Foregone Revenue	19,172,248	-	-	-	19,172,248
Hydro One Capital Contributions Variance (1508)	1,853,428	-	1,853,428	-	-

	2015 CIR Approved Disposition		Rate Generator Model Continuity Schedule		Total Variance
	Principal	Carrying Charge	Principal	Carrying Charge	
Gain on Sale - Named Properties (1508)	5,751,104	-	5,751,104	-	-
POEB Tax Savings	(22,673,078)	(809,071)	(22,673,078)	-	(809,071)
LRAMVA (1568)	3,452,615	131,074	3,452,615	131,074	-
Total in 1595 Account	63,715,659	(18,730)	45,304,160	131,074	

As indicated in Table 1, in the Rate Generator Model continuity schedule filed at Tab 3, Schedule 1 of the application, Toronto Hydro grouped the carrying charges of most of the accounts approved in the 2015 CIR with the principal balances. In the revised version attached as Appendix A to the response to interrogatory 1-Staff-2, Toronto Hydro has corrected the presentation of these carrying charges. This has no impact on the amount requested for disposition.

The variance in the residual RARA (2013) account is due to the difference between the forecasted carrying charges that were approved in the 2015 Custom IR proceeding and the actual per Toronto Hydro's ledger. In the previous version of the Rate Generator Model, Toronto Hydro included the actual carrying charges in the 1595 (2016) account in the "OEB-Approved Disposition during 2016" column, but has now allocated only the approved (forecast) amount in that column in the updated Rate Model Generator Continuity Schedule. This does not impact the final balance for disposition as there is an offsetting amount in the transaction column for the difference between actual and forecast.

The variance in 2016 Foregone Revenue is due to Toronto Hydro including the amount in the "Transactions during 2016" column in error instead of in the "OEB-Approved Dispositions during 2016" column. Toronto Hydro confirms that this had no net impact

on the residual balance proposed for clearance and has corrected it in the latest version of the Rate Generator Model.

The POEB Tax Savings variance is due to Toronto Hydro including the carrying charges amount in the 1595 (2016) account in 2017 instead of in 2016. Toronto Hydro has updated the Rate Model Generator Continuity Schedule to show the approved amount in 2016.

Toronto Hydro notes that there are other rates riders approved in the 2015 Custom IR proceeding (e.g. Operations Center Consolidation Plan, Smart Metering Entity, Stranded Meters and IFRS-CGAAP Transitional PPE Amounts), which have been excluded from Table 1 above because the corresponding balances were not transferred to the 1595 Account.

b) Please refer to Toronto Hydro's response to part a) of this interrogatory.

c) The high credit balance for residual carrying charges of $1,007,173 relative to the debit residual balance in principal of $1,851,187 is due to Toronto Hydro allocating the carrying charges for most of the accounts transferred to the 1595 (2016) account to the Principal balance section in the continuity schedule (as noted in part a) of this interrogatory response). Toronto Hydro has separated these carrying charges from the principal balances in the updated Rate Generator Model continuity schedule and notes that the magnitude of the resulting residual carrying charges, a credit of $347,907, is much smaller relative to that of the debit principal balance of $1,191,920. The credit balance for carrying charges is primarily due to the POEB Tax savings account, which was payable for Toronto Hydro and on which interest was accrued on the remaining principal balance both during the rate rider period and on an ongoing

monthly basis as required per the Accounting Procedures Handbook ("APH"). Furthermore, no carrying charges were applied to most of the receivable rate riders in 2016 as indicated in Table 1. The debit principal balance is primarily due to under collection of the Foregone Revenue principal balance, which was a receivable for Toronto Hydro, through the 2016 rate riders.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 7:

Reference(s): EB-2022-0065, 2023 Rate Generator Model, Tab 3
EB-2017-0077, 2018 Custom IR Update, Decision and Rate Order, December 14, 2017, page 12 & 15z

In the current proceeding, Toronto Hydro is requesting the disposition of Account 1595, Disposition and Recovery/ Refund of Regulatory Balances (2018).

In cell AA33 of the 2023 Rate Generator Model, Toronto Hydro has recorded a debit of $83,532,293 for OEB-Approved Disposition during 2018 (for principal) and in cell AF23 a credit of $121,812 (for carrying charges).

However, in the 2018 Custom IR Update proceeding, a credit of $89,120,982 for principal and a credit of $1,225,388 were approved by the OEB for the disposition of Group 1 DVAs. Also, a debit of $6,569,357 (including carrying charges of $121,812) for Account 1568 LRAMVA was approved for disposition.

Regarding Account 1595 (2018), OEB staff also notes that the amount of carrying charges of a credit of $688,065 being requested for clearance in the current proceeding is high, compared to the credit principal balance of $239,757.

a) Please explain whether the principal (debit of $83,532,293) and interest (credit of $121,812) amounts included in the 2023 Rate Generator Model for Account 1595, Disposition and Recovery/ Refund of Regulatory Balances (2018) OEB-Approved Disposition during 2018 are correct. If not, please update the relevant evidence as

applicable.

b) Regarding Account 1595 (2018), please explain the high credit balance of $688,065 for carrying charges, as compared to the credit principal balance of $239,757.

RESPONSE:

a) Toronto Hydro confirms that the total amount (principal plus carrying charges) included in the 2023 Rate Generator Model for Account 1595, Disposition and Recovery/ Refund of Regulatory Balances (2018) OEB-Approved Disposition during 2018 is correct. However, as explained below, Toronto Hydro has adjusted the individual principal and interest amounts in the updated Rate Generator Model attached as Appendix A to the response to interrogatory 1-Staff-2. Please see Table 1 below for a reconciliation to the dispositions approved in the 2018 Decision. Toronto Hydro notes that it followed the requirements of the OEB's Rate Generator Model continuity schedule to record liabilities as debits and receivables as credits in the "OEB-Approved Disposition" columns of that schedule.

Table 1: Reconciliation of 2018 Decision Approved Disposition to Rate Generator Model Continuity Schedule for 1595 (2018) Amounts

	2018 Decision Approved Disposition		Rate Generator Model Continuity Schedule		Total Variance
	Principal	Carrying Charge	Principal	Carrying Charge	
Group 1 Accounts (excluding SME)	(88,741,206)	(1,238,629)	(89,979,835)	-	-
Smart Meter Entity ("SME") Variance Charge (1551)[1]	(379,776)	13,241	N/A	N/A	N/A
Total Group 1 Balance	(89,120,982)	(1,225,388)	-	-	-

	2018 Decision Approved Disposition		Rate Generator Model Continuity Schedule		Total Variance
	Principal	Carrying Charge	Principal	Carrying Charge	
LRAMVA (1568)	6,447,545	121,812	6,447,545	121,812	-
Total in 1595 Account	(82,293,661)	(1,116,817)	(83,532,290)[2]	121,812	

[1] The Smart Meter Entity (SME) balances were not transferred to the 1595 account.

[2] The $3 variance versus the amount in the "OEB-Approved Disposition during 2018" column of Rate Generator Model filed at Tab 3, Schedule 1 of the application is due to rounding.

Toronto Hydro notes that the differences in the Rate Generator Model versus the 2018 approved balances are due to the exclusion of the Smart Meter Entity balances from the 1595 Account and the grouping of principal and carrying charge balances as discussed in Toronto Hydro's response to interrogatory 1-Staff-6 part a). Toronto Hydro has corrected the presentation of the carrying charge balances in the updated Rate Generator Model Continuity Schedule.

b) Regarding Account 1595 (2018), the high credit balance of $688,065 for carrying charges, as compared to the credit principal balance of $239,757 is due to Toronto Hydro initially grouping the OEB-approved carrying charges for 2018 with the principal balances. Note that this did not affect the overall balances to be cleared. As per the updated Rate Generator Model attached as Appendix A to Interrogatory 1-Staff-2, the credit carrying charges balance is $1,926,697 and the debit principal balance is $998,874. The updated credit balance of $1,926,697 for carrying charges is primarily due to the $88,741,206 principal liability for Group 1 accounts, on which interest was accrued on the remaining principal balance during the rate rider period and on an ongoing monthly basis, as required by the Accounting Procedures Handbook ("APH"). The debit principal balance of $998,874 is primarily due to overpayment of the Group 1 principal balance to ratepayers through rate riders.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 8:

Reference(s): EB-2022-0065, 2023 Rate Generator Model, Tab 3
EB-2018-0071, 2019 Custom IR Update, Decision and Rate Order, December 13, 2018, page 15, 17, 18

In the current proceeding, Toronto Hydro is requesting the disposition of Account 1595, Disposition and Recovery/ Refund of Regulatory Balances (2019).

In cell AK34 of the 2023 Rate Generator Model, Toronto Hydro has recorded a credit of $7,836,356 for OEB-Approved Disposition during 2019 (for principal) and in cell AP34 a $0 balance (for carrying charges).

However, in the 2019 Custom IR proceeding, a credit of $4,748,128 for principal and a debit of $108,827 were approved by the OEB for the disposition of Group 1 DVAs. Also a debit of $12,343,396 (including carrying charges of $295,181) for Account 1568 LRAMVA was approved for disposition.

a) Please explain whether the principal (credit of $7,836,356) and interest (nil) amounts included in the 2023 Rate Generator Model for Account 1595, Disposition and Recovery/ Refund of Regulatory Balances (2019) OEB-Approved Disposition during 2019 are correct. If not, please update the relevant evidence as applicable.

RESPONSE:

a) Toronto Hydro confirms that the total amount (principal plus carrying charges) included in the 2023 Rate Generator Model for Account 1595, Disposition and Recovery/ Refund of Regulatory Balances (2019) OEB-Approved Disposition during 2019 is correct. However, as explained below, Toronto Hydro has adjusted the individual principal and interest amounts in the updated Rate Generator Model attached as Appendix A to the response to interrogatory 1-Staff-2. Please see Table 1 below for a reconciliation to the dispositions approved in the 2019 decision. Toronto Hydro notes that it followed the requirements of the OEB's Rate Generator Model continuity schedule to record liabilities as debits and receivables as credits in the "OEB-Approved Disposition" columns.

Table 1: Reconciliation of 2019 Decision Approved Disposition to Rate Generator Model Continuity Schedule for 1595 (2019) Amounts

	2019 Decision Approved Disposition		Rate Generator Model Continuity Schedule		Total Variance
	Principal	Carrying Charge	Principal	Carrying Charge	
Group 1 Accounts (excluding SME)	(4,634,946)	127,903	(4,507,043)	-	-
Smart Meter Entity (SME) Variance Charge (1551)[1]	(113,182)	(19,076)	N/A	N/A	N/A
Total Group 1 Balance	(4,748,128)	108,827	-	-	-
LRAMVA (1568)	12,048,215	295,181	12,343,396	-	-
Total in 1595 Account	7,413,269	423,084	7,836,353[2]		

1 Smart Meter Entity (SME) variance charge was not transferred to the 1595 account.
2 The $3 variance versus the amount in the "OEB-Approved Disposition during 2019" column of Rate Generator Model filed at Tab 3, Schedule 1 of the application is due to rounding.

Toronto Hydro notes that the differences in the Rate Generator Model versus the 2019 approved balances are due the exclusion of the Smart Meter Entity balances from the 1595 Account and the grouping of principal and carrying charge balances as

discussed in Toronto Hydro's response to interrogatory 1-Staff-6 part a). Toronto Hydro has corrected the presentation of the carrying charge balances in the updated Rate Generator Model Continuity Schedule.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 9:

Reference(s): **EB-2022-0065, 2023 Rate Generator Model, Tab 6.1 GA and 6.2 CBR B**

EB-2022-0065, Tab 2, Schedule 1, Page 8

Toronto Hydro has generated rate riders in Tab 6.1 GA for Account 1589, RSVA - Global Adjustment, and Tab 6.2 CBR B for Account 1580, Variance WMS – Sub-account CBR Class B.

Toronto Hydro stated that the balances in Account 1589 are allocated to non-RPP Class B customers only.

OEB staff notes that both of the above-noted accounts should only be cleared to Class B customers and not Class A customers. However, OEB staff requires further clarification because some rate classes, such as the large use rate class, contain allocations of Account 1589, RSVA - Global Adjustment and Account 1580, Variance WMS – Sub-account CBR Class B.

a) Please confirm that all rate classes that are allocated rate riders for Account 1589, RSVA - Global Adjustment, and Account 1580, Variance WMS – Sub- account CBR Class B, include only Class B customers and exclude any Class A customers.

b) If this is not the case, please explain and update the relevant evidence as applicable.

RESPONSE:

a) Toronto Hydro confirms that all rate classes that are allocated rate riders for Account 1589, RSVA - Global Adjustment, and Account 1580, Variance WMS – Sub- account CBR Class B, include only Class B customers and exclude any Class A customers.

b) Not applicable, please see Toronto Hydro's response to part a) of this interrogatory.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 10:

Reference(s): **EB-2022-0065, 2023 GA Analysis Workform**
EB-2022-0065, 2023 Rate Generator Model, Tab 3

Regarding Account 1589, Toronto Hydro has recorded principal adjustments of a credit of $12,259,095 for 2020 and a debit of $368,714 for 2021, in the "Principal Adjustments" tab of the GA Analysis Workform. These amounts reconcile to the values reported in the 2023 Rate Generator Model.

However, these principal adjustments do not reconcile to the values shown in Tab GA 2020 and Tab GA 2021 of the GA Analysis Workform.

OEB staff also notes in Tab GA 2020 and Tab GA 2021 of the GA Analysis Workform, it is not clear what numbers are principal adjustments, versus reconciling items (i.e., not principal adjustments).

a) Please explain and revise the GA Analysis Workform to address all of OEB staff's observations noted in the preamble to this interrogatory, regarding Tab GA 2020, Tab GA 2021, and Tab Principal Adjustments of the GA Analysis Workform.

b) Please update Tab 3 of the Rate Generator Model, if applicable.

c) After addressing part a) of this interrogatory, if cell C93 (i.e., Unresolved Difference as % of Expected GA Payments to IESO) of each of Tab GA 2020 and Tab GA 2021 is greater than the threshold of +/- 1%, please explain.

RESPONSE:

a) Regarding Account 1589, Toronto Hydro has recorded principal adjustments of a credit of $12,259,095 for 2020 and a debit of $368,714 for 2021, in the "Principal Adjustments" tab of the GA Analysis Workform in accordance with the February 21, 2019 Guidance on Commodity Pass Through Accounts 1588 and 1589. These principal adjustments are not reconciling items and do not need to be recorded in tab "GA 2020" and tab "GA 2021" based on the OEB's Instructions for Completing GA Analysis Workform – 2023 Rates ("the Instructions").[1] According to the Reconciling Item and Principal Adjustments table on page 11 of the Instructions, Toronto Hydro meets the criteria for when a principal adjustment is required, but a reconciling item is not required (i.e. Toronto Hydro calculates the expected GA balance in Note 4 based on estimated consumption and its General Ledger balance excludes unbilled to actual revenue true-up).

Toronto Hydro has updated columns "I" and "J" in the "GA 2020" and "GA 2021" tabs under Note 5 in the revised GA analysis Workform, attached as Appendix A to this response, to clearly identify that the reconciling items included are not principal adjustments and to explain the rationale.

b) This is not applicable as Toronto Hydro did not change the principal adjustment amounts. Please see Toronto Hydro's response to part a) of this interrogatory for more details.

c) This is not applicable as Toronto Hydro did not make any changes to column "C" in the in the "GA 2020" and "GA 2021" tabs under Note 5 and therefore cell C93, the

[1] Ontario Energy Board, Instructions for Completing GA Analysis Workform – 2023 Rates (May 27, 2022).

Unresolved Difference as % of Expected GA Payments to IESO, remains unchanged.

Please see Toronto Hydro's response to part a) of this interrogatory for more details.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 11:

Reference(s): **EB-2022-0065, Tab 1, Schedule 1, Page 2**
Ref 2: Filing Requirements For Electricity Distribution Rate Applications - 2022
Edition for 2023 Rate Applications Chapter 2 Cost of Service, April 18, 2022, page 64 & 65

Toronto Hydro requested that the OEB make its rate order effective January 1, 2023, notwithstanding that the OEB's decision and order approving its rates and other charges may not be delivered until after that date.

In the alternative, Toronto Hydro requested the establishment of an interim order making Toronto Hydro's current distribution rates and charges effective on an interim basis as of January 1, 2023. Toronto Hydro also requested the establishment of an account to recover any differences between the interim rates and the actual rates effective January 1, 2023, based on the OEB's decision and order.

OEB staff notes that in certain previous proceedings,[1] the OEB has approved a rate rider to capture forgone revenue resulting from an implementation date for approved new rates that were subsequent to the effective date of such rates, rather than establishing a DVA to capture such impacts.

[1] For example, EB-2021-0016, E.L.K. Energy Inc., Decision and Rate Order, June 30, 2022, p. 5

a) Please provide Toronto Hydro's viewpoint regarding the use of foregone revenue rate riders rather than the establishment of a new account to capture the foregone revenue.

b) If Toronto Hydro would like to keep the same proposal (i.e. establish a DVA), please provide the following:
    i. File a draft accounting order for this new DVA.
    ii. Discuss the causation, materiality, and prudence criteria required when requesting the establishment of a new DVA, in accordance with the OEB's direction in its filing requirements.

RESPONSE:

a) Toronto Hydro finds the use of foregone revenue rate riders to be an acceptable alternative to the establishment of a new account to capture foregone revenue, should it be required.

b) Not applicable. Please see Toronto Hydro's response to part a) of this interrogatory above.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 12:

Reference(s): **EB-2022-0065, Tab 2, Schedule 1, Page 4**
EB-2018-0165, Decision and Order, December 19, 2019, page 177 & 178
EB-2018-0165, Decision and Rate Order, February 20, 2020, page 4

Toronto Hydro stated that in the 2020-2024 Custom IR decision, the OEB approved the disposition of Group 2 DVA balances and Other Amounts on a forecast basis. In the 2020 rate order, the OEB directed Toronto Hydro to true-up any variance between the forecast principal and interest amounts and the actual principal and interest amounts, and to dispose of these amounts in the year that the underlying account is disposed.

Toronto Hydro further stated that two accounts, CRRRVA and PILs and Tax Variances – CCA Changes, were approved for disposition starting on January 1, 2023 and are therefore subject to true-up as part of the current application.

OEB staff notes that the 2020 Custom IR decision and rate order stated the following:

> For DVAs and Other Amounts to be disposed after March 1, 2020, the OEB finds that it is appropriate to true-up any variance between both the principal and interest amounts and the actual amounts in Account 1595. The OEB also finds it appropriate to dispose of the Account 1595 true-up in the year that the underlying account is disposed.

a) In accordance with the 2020 Custom IR decision and rate order, please clarify how the true-up will occur for the two accounts, CRRRVA and PILs and Tax Variances – CCA Changes, that were approved for disposition starting on January 1, 2023 and are subject to true-up as part of the current application.

For example, is Toronto Hydro proposing that any true-up adjustment to the above noted two accounts that were approved for disposition starting on January 1, 2023 would be transferred to Account 1595, Disposition and Recovery/Refund of Regulatory Balances (2023), or a different sub-account of Account 1595? Please specify and explain.

RESPONSE:

a) Yes, Toronto Hydro confirms that it is proposing that any true-up adjustment to the above noted two accounts, which were approved for disposition starting on January 1, 2023, would be transferred to Account 1595, Disposition and Recovery/Refund of Regulatory Balances (2023) and will treat them as residual balances that will be disposed with the residual balances of the respective riders. This proposal is consistent with the treatment of other Group 2 true-up variances approved in the 2021 and 2022 annual update applications.[1]

[1] EB-2020-0057, Decision and Rate Order (December 10, 2020) at page 17; EB-2021-0060, Decision and Rate Order (December 9, 2020) at page 12.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 13:

Reference(s): **EB-2022-0065, Tab 2, Schedule 1, page 5**
EB-2008-0046, Report of the Board on Electricity Distributors' Deferral and Variance Account Review Initiative (EDDVAR), July 31, 2009, page 13

Toronto Hydro provided a table in its application, Table 2, that shows the difference between the forecasted and actual Group 2 balances that will be disposed starting January 1, 2023.

Specifically, Table 2 shows a "Total True-up Variance" of a credit of $2.4 million for the CRRRVA account and a credit of $0.7 million for the PILs and Tax Variances – CCA Changes account, which sum to a credit of $3.1 million.

Toronto Hydro stated that "the true up balance of $3.1 million is a credit in Toronto Hydro's favour."

Toronto Hydro also stated that clearance of the $3.1 million would result in rate riders above the $0.0001/kWh materiality threshold, as per the *Report of the Board on electricity Distributors' Deferral and Variance Account Review Initiative*.

Toronto Hydro stated that it proposes to transfer the true-up amount to Account 1595 as a residual balance for the 2023 year, consistent with the recent treatment of other Group 2 true-up amounts resulting from 2020-2024 Custom IR decision.

a) Please clarify that the amounts shown in Table 2 should be reflected as debits and not credits, given Toronto Hydro's statement the $3.1 million is in "Toronto Hydro's favour", as well as the forecasted credit being larger than the actual credit. Please update Table 2 accordingly.

b) If this is not the case, please explain.

c) As Toronto Hydro stated that the $3.1 million true-up would result in rate riders above the $0.0001/kWh materiality threshold, would Toronto Hydro be agreeable to a separate rater rider clearing this balance in the current proceeding? This rate rider would be implemented rather than transferring the balance to Account 1595, Disposition and Recovery/Refund of Regulatory Balances (2023), or any other sub-account of Account 1595 (as per the above interrogatory where OEB staff is seeking clarification).

d) If a rate rider is to be established, please provide a table showing the calculation of the rate rider for all applicable rate classes for this account.

RESPONSE:

a) Yes, Toronto Hydro confirms that, from an accounting perspective, the true-up amounts in Table 2 of the Manager's Summary (Tab 2, Schedule 1 at page 5) are debit balances and thus a receivable for Toronto Hydro. The table shows the subtraction of actual balances from forecasted balances and thus mathematically it was shown as a negative amount, which is consistent with the presentation of the true-up calculations

in the 2021 and 2022 annual update applications.[1]

b) Please refer to Toronto Hydro's response to part a) of this interrogatory.

c) For consistency and efficiency (i.e. to avoid introducing a new rate rider to recover a relatively small amount from customers), Toronto Hydro prefers to follow the same treatment as approved for other Group 2 true-up balances in the 2021 and 2022 annual update applications[2] and thus defer these balances for clearance with residual balances.

d) Please refer to Toronto Hydro's response to part c) of this interrogatory. While a rate rider is not its preferred approach, Toronto Hydro is prepared to implement one to clear the Group 2 true-up balance should the OEB find it to be more appropriate. Please see Table 1 below for a summary of the rate riders and Appendix A to this response for their calculation.

[1] EB-2020-0057, Toronto Hydro-Electric System Limited Application to Finalize 2021 Electricity Distribution Rates and Charges (Filed: August 24, 2020), Tab 2, Schedule 1 at pages 5-6; EB-2021-0060, Toronto Hydro-Electric System Limited Application to Finalize 2022 Electricity Distribution Rates and Charges (Filed: August 20, 2021), Tab 2, Schedule 1 at page 4.
[2] EB-2020-0057, Decision and Rate Order (December 10, 2020) at page 17; EB-2021-0060, Decision and Rate Order (December 9, 2020) at page 12.

1 **Table 1: Group 2 True-up Rate Riders**

Rate Class	Rate Rider	
Residential	0.17	per 30 days
CS Muti-Units Residential	0.11	per 30 days
GS < 50 kW	0.00019	per kWh
GS - 50 to 999 kW	0.0336	per kVA per 30 days
GS > 1,000 to 4,999 kW	0.0254	per kVA per 30 days
Large User =>5,000 kW	0.0299	per kVA per 30 days
Street Lighting	0.1883	per kVA per 30 days
USL (Connections)	0.00040	per kWh
USL (Customer)	-	

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 14:

Reference(s): **EB-2022-0065, Tab 2, Schedule 1, page 6**
EB-2018-0165, 2020 Custom IR, Draft Rate Order, February 12, 2020, page 20

Toronto Hydro provided a table in its application, Table 3, that shows the differences between some of the forecasted and actual Group 2 balances that were disposed starting March 1, 2020.

Specifically, Table 3 shows a "Total True-up Variance" of a credit of $1.7 million for the Operating Centres Consolidation Program (OCCP) account and a nil balance for the "Gain on Sale 50/60 Eglinton Avenue" account.

Toronto Hydro stated that "for the OCCP account the forecast overestimated the amount owed to customers by $1.7 million."

Toronto Hydro also stated that in its 2021 Custom IR application it proposed to defer the true-ups for these two accounts that were disposed over 2020-2021.

Regarding the OCCP account, Toronto Hydro stated that the actual amount paid to customers through the 2015-2019 rate rider was higher than estimated, due to lagging payment amounts that were not accounted for in the forecast.

Toronto Hydro further stated that as the disposition of these accounts is now complete, the variance has been captured in the respective Account 1595 sub-account. However, OEB staff notes that the sub-account itself has not been identified.

a) Please clarify that the amounts shown in Table 3 should be reflected as debits and not credits, given Toronto Hydro's statement that its forecast had overestimated the amount owed to customers by $1.7 million. Please update Table 3 accordingly.

b) If this is not the case, please explain.

c) Regarding the OCCP account, please explain why Toronto Hydro is referring to a "2015-2019 rate rider", when the title of its Table 3 suggests that this balance was disposed starting March 1, 2020, as well as Toronto Hydro's statement that these two accounts were disposed over 2020-2021 and also reflected in its 2020 Custom IR draft rate order.

d) Please explain and clarify to which sub-account (i.e., to which rate year) of Account 1595, Disposition and Recovery/Refund of Regulatory Balances, that Toronto Hydro is proposing to transfer the $1.7 million amount.

RESPONSE:

a) Yes, Toronto Hydro confirms that the true-up amounts in Table 3 of the Manager's Summary are debit amounts from an accounting perspective and thus a receivable for Toronto Hydro. Table 3 shows the subtraction of actual balances from forecasted balances and thus mathematically it was shown as a negative amount, which is consistent with the presentation of the true-up balances in the 2021 and 2022 annual

update applications.[1]

b) Please refer to Toronto Hydro's response to part a) of this interrogatory.

c) Regarding the OCCP Account, Toronto Hydro is referring to a "2015-2019 rate rider" as payments to customers through that rate rider directly impact the true-up amount for the account. In its 2015-2019 Custom IR application, Toronto Hydro requested and obtained approval of a rate rider to return the forecasted gains on sale of properties through its Operating Centers Consolidation Program ("OCCP") and a variance account (i.e. the OCCP account) to track the difference between the amounts returned through that rate rider and the actual gains on sale.[2] Therefore, the actual balances in the OCCP Account were dependent on both the actual gains on sale (grossed up for tax savings) and the total amounts returned to customers through the 2015-2019 rate rider. The approved disposition amount for the OCCP Account in 2020-2021 was based on an estimate of the 2015-2019 rate rider payments available at that time. As noted in the Manager's Summary (Tab 2, Schedule 1 at page 6), the forecast underestimated the payments made to customers through the 2015-2019 rate rider due to payments being captured in the financial system after the 2015-2019 rate rider had expired.

d) Toronto Hydro is not proposing to transfer the $1.7 million true-up amount to any account. This $1.7 million variance is a simple mathematical calculation of the difference between the forecast OCCP Account balance approved for clearance and

[1] EB-2020-0057, Toronto Hydro-Electric System Limited Application to Finalize 2021 Electricity Distribution Rates and Charges (Filed: August 24, 2020), Tab 2, Schedule 1 at pages 5-6; EB-2021-0060, Toronto Hydro-Electric System Limited Application to Finalize 2022 Electricity Distribution Rates and Charges (Filed: August 20, 2021), Tab 2, Schedule 1 at page 4.
[2] EB-2014-0116, Exhibit 8, Tab 1, Schedule 1 at page 13; Decision and Order (December 29, 2015) at page 52.

what it would have been had full information (e.g. actual amounts paid to customers through the 2015-2019 rate rider) been available. However, due to the unique context around this account (e.g. its ties to transactions related to an earlier rate rider and the fact that disposition is already complete) the $1.7 million true-up amount does not exist as an actual balance recorded in the OCCP Account that Toronto Hydro needs to recover from customers through a rate rider or transfer to an appropriate 1595 sub-account for future clearance. At the time of clearance of the 2020 sub-account of the 1595 Account, Toronto Hydro intends to holistically reconcile and clear the variance between the net gains on sale of the OCCP properties, grossed up for associated tax savings, plus applicable carrying charges, and the amounts returned to customers through both the 2015-2019 and 2020-2021 rate riders.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 15:

Reference(s): EB-2018-0165, Decision and Order, December 19, 2019, page 146
EB-2022-0065, Tab 2, Schedule 1, Page 11

In Toronto Hydro's 2020-2024 Custom IR decision, the OEB directed Toronto Hydro to file, in the next rebasing application, either its annual useful lives reviews to demonstrate that no change is required to the useful lives, or a new depreciation study.

In the current proceeding, Toronto Hydro stated that the latter option is more appropriate, since the last depreciation study was undertaken more than a decade ago.

In the current proceeding, Toronto Hydro also stated:

> In preparation for the 2025 rebasing application, a third-party depreciation study is currently underway. The final results of the study are expected at the end of 2022 and Toronto Hydro intends to implement the revised useful lives as of January 1, 2023. Although the study is still in progress, preliminary results indicate changes in financial useful lives that will likely lead to an overall net decrease to the depreciation expense for 2023 and 2024, the remaining two years of the current rate period. As a result Toronto Hydro expects there will be a material variance, to the benefit of customers, in the approved versus actual depreciation expense that underlies the 2023 and 2024 CPCI [Custom Price Cap Index].

a) Further to Toronto Hydro's statements that its last depreciation study was undertaken more than a decade ago and that it expects there will be a material

variance to the benefit of customers, please provide more detail why Toronto Hydro has chosen to implement the revised useful lives effective January 1, 2023 (i.e., outside the context of a rate rebasing application). Please also explain given that the OEB's directive was for "Toronto Hydro to file either the annual useful lives reviews to demonstrate that no change is required to the useful lives or a new depreciation study."

b) Please provide an update on the anticipated completion date of the depreciation study. If the study is not received until late in 2022, what steps will Toronto Hydro be using to ensure implementation of the new depreciation rates as of January 1, 2023?

c) If available, please file a high level summary of the study, indicating the asset classes affected and the changes in useful lives (i.e., from what Toronto Hydro currently uses to what Toronto Hydro proposes to use based on this new deprecation study.)

RESPONSE:

a) In accordance with the OEB direction in Toronto Hydro's 2020-2024 Custom IR decision,[1] Toronto Hydro has undertaken a new depreciation study given the age of the previous study and the evolution in construction processes and materials since 2009. In alignment with International Accounting Standards (IAS) 8 – Accounting Policies, Changes in Accounting Estimates and Errors from International Financial Reporting Standards, the effect of a change in an accounting estimate shall be

[1] EB-2018-0165, Decision and Order (December 19, 2020) at page 146.

recognised prospectively in the period of the change [IAS 8.36-37]. The January 1, 2023 implementation was chosen to provide sufficient time to determine the impacts for the next rebasing application. With the approval of the asymmetrical account, ratepayers will receive any benefit from the changes.

b) The most recent anticipated completion date of the depreciation study is January, 2023. While the study is in its final stages, Toronto Hydro is testing its financial system in preparation for implementation and expects to continue these efforts throughout the fourth quarter of 2022 to enable implementation of the new depreciations rates effective January 1, 2023.

c) The depreciation study is comprehensive and the useful lives for all asset classes (including distribution and non-distribution) are potentially subject to change. A high-level summary of the study providing the specific details requested (i.e. the asset classes impacted and change in useful lives) is not yet available. Please see Toronto Hydro's response to interrogatory 1-Staff-16 part c) for a discussion of how Toronto Hydro's request meets the causation, materiality, and prudence criteria required for requesting the establishment of a new DVA.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 16:

Reference(s): **EB-2022-0065, Tab 2, Schedule 1, Page 12**
Filing Requirements For Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications Chapter 2 Cost of Service, April 18, 2022, page 64 & 65
EB-2014-0116, 2015 Custom IR, Decision and Rate Order, Appendix E, March 1, 2016, page 11

Toronto Hydro has proposed to separately track the difference in revenue requirement impacts of the existing and updated depreciation rates over 2023 and 2024 in a sub-account of its existing Capital-Related Revenue Requirement Variance Account (CRRRVA).

Toronto Hydro stated that as the CRRRVA is asymmetrical in favour of customers, the new depreciation-related sub-account would also be asymmetrical.

OEB staff notes that the CRRRVA was established in Toronto Hydro's 2015 Custom IR proceeding. The Accounting Order in the 2015 Custom IR proceeding suggested that the CRRRVA will record the variance between the cumulative 2015 to 2019 capital related revenue requirement included in rates, and the actual capital in-service additions related revenue requirement over the period.[1]

[1] Toronto Hydro was to record the variance on a cumulative basis to ensure that it had the flexibility to optimize the implementation of its capital investment strategy, which may involve shifting the timing of project spending within the Custom IR period.

a) Please confirm that the scope of the CRRRVA established in Toronto Hydro's 2015 Custom IR proceeding did not include the revenue requirement impact from the update of Toronto Hydro's depreciation study.

b) If confirmed, please clarify that a new DVA should be established, rather than establishing a sub-account under the existing CRRRVA.

c) Regarding the new DVA, please discuss the causation, materiality, and prudence criteria required when requesting the establishment of a new DVA, in accordance with the OEB's direction in its filing requirements.

d) Please clarify whether Toronto Hydro would be agreeable to establishing a new sub-account of Account 1508, Other Regulatory Assets, to track the above-noted impacts, rather than using a sub-account of the CRRRVA. If this is not the case, please explain.

e) If this is not the case, please provide the relevant evidence as per the 2015 Custom IR proceeding.

f) Whether or not Toronto Hydro agrees to establish a new sub-account of Account 1508, Other Regulatory Assets, to track the above-noted impacts, or use sub-account of the CRRRVA, please explain whether the new sub-account will be cumulative in nature (as the CRRRVA is cumulative in nature), or recorded on an annual basis (and not cumulative). For example, if there is a decrease in the above-noted impact in 2023 and an increase in the above-noted impact in 2024, would Toronto Hydro propose that the 2024 increase be applied against the 2023 decrease, or recorded separately on an annual basis (i.e., maintaining the 2023

decrease recorded in the account)?

g) If the OEB establishes the new depreciation-related sub-account as a separate variance account or as a sub-account included in the CRRRVA, would Toronto Hydro propose the same treatment of the new account/sub-account under the existing CRRRVA? If not, why not.

RESPONSE:

a) Toronto Hydro confirms that, the original scope of the CRRRVA established in Toronto Hydro's 2015 Custom IR proceeding did not include revenue requirement impacts from updates of Toronto Hydro's depreciation useful lives.

b) Toronto Hydro agrees that a new account should be established rather than establishing a sub-account under the existing CRRRVA. Please see Toronto Hydro's response to part d) of this interrogatory for more details.

c) *Causation*: Toronto Hydro's rates for 2023-2024 were derived using the existing depreciation rates, therefore any changes to those depreciation rates will be outside that base.

Materiality: Given the comprehensive nature of the study, which covers all asset classes, and the evolution in construction processes and materials since 2009, it is reasonable to assume that the net impacts of the changes in useful lives coming out of this study will exceed the materiality threshold.

Prudence: The prudence criterion is met by virtue of the fact that Toronto Hydro

proposes an asymmetrical account that could only result in a payable balance in favour of rate payers. The final determination of prudence will be made at the time of disposition of the account when the OEB approves the new depreciation useful lives.

d) Yes, Toronto Hydro is agreeable to establishing a new sub-account of Account 1508, Other Regulatory Assets, to track the difference in revenue requirement impacts of the existing and updated depreciation rates over 2023 and 2024.

e) Not applicable. Please see Toronto Hydro's response to part d) of this interrogatory.

f) Toronto Hydro proposes that the new sub-account be cumulative in nature, consistent with the CRRRVA. Toronto Hydro notes that the same changes in financial useful lives would be applied in both 2023 and 2024, and would yield directionally similar impacts in both years (i.e. a net decrease in depreciation expense for both 2023 and 2024). Therefore, the scenario set out in the question is not very likely to occur.

g) Yes, Toronto Hydro proposes the same treatment of the new account/sub-account regardless of whether it is a new sub-account of Account 1508, Other Regulatory Assets, or a new account/sub-account under the CRRRVA.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 17:

Reference(s): EB-2022-0065, Tab 2, Schedule 1, Page 12

Toronto Hydro has proposed to separately track the difference in revenue requirement impacts of the existing and updated depreciation rates over 2023 and 2024 in a sub-account of its existing CRRRVA.

OEB staff notes that the Account 1576, Accounting Changes Under CGAAP mechanism is intended to capture impacts of capitalization and depreciation changes from those embedded in rates at last rebasing, made during the incentive rate-setting term.

a) As Toronto Hydro stated that it is proposing to record revenue requirement impacts of the existing and updated depreciation rates, please explain what Toronto Hydro is proposing to record in the new sub-account, when it refers to "revenue requirement differences".

b) When capturing these revenue requirement impacts, please explain whether Toronto Hydro is proposing to apply the same methodology and mechanics as Account 1576, Accounting Changes Under CGAAP (including a return component applied to the balance). If this is not the case, please explain, including a description of the methodology that Toronto Hydro is proposing to use.

c) Please confirm that Toronto Hydro is implementing the changes in depreciation rates for financial reporting purposes, effective January 1, 2023. If this is not the case, please explain.

d) Please describe how Toronto Hydro plans to reflect the changes in depreciation rates for regulatory purposes.

RESPONSE:

a) Toronto Hydro is proposing to record revenue requirement impact of the existing and updated depreciation rates within the new sub-account to capture differences for Return on Equity, Deemed Interest, Depreciation and PILS resulting from the anticipated change in depreciation rates. Please refer to Table 1 below, which is also included in excel format as Appendix A to this response, for an illustrative example of the revenue requirement components that will be recorded in the account.

Table 1: Illustrative Example of Proposed Account Balance Calculation

	Before change in depreciation		After change in depreciation		
	2023	2024	2023	2024	
Opening Net Book Value	1,000.0	1,100.0	1,000.0	1,110.0	A
Net Additions	200.0	210.0	200.0	210.0	B
Depreciation	(100.0)	(150.0)	(90.0)	(135.0)	C
Closing Net Book Value	1,100.0	1,160.0	1,110.0	1,185.0	D=A+B+C
Average Net Book Value/Rate Base[1]	1,050.0	1,130.0	1,055.0	1,147.5	E=(A+D)/2
Equity %	40%	40%	40%	40%	F
Debt %	60%	60%	60%	60%	G
Return on Equity %	8.5%	8.5%	8.5%	8.5%	H
Interest Rate %	3.6%	3.6%	3.6%	3.6%	I
Capital Cost Allowance (CCA) Rate	8%	8%	8%	8%	J
Capital Cost Allowance on 2023 opening Undepreciated Capital Cost (UCC)[2]	150.0	130.0	150.0	130.0	K
Capital Cost Allowance- 2023-2024 Additions[3]	8.0	23.8	8.0	23.8	L=B*J
Total CCA	**158.0**	**153.8**	**158.0**	**153.8**	M=K+L
	2023	2024	2023	2024	
Return on Equity	35.8	38.5	36.0	39.1	N=E*F*H
Deemed Interest	22.9	24.7	23.0	25.1	O=E*G*I
Depreciation	100.0	150.0	90.0	135.0	P=(-C)
PILS	(8.0)	12.5	(11.6)	7.3	Q=((N+P-M)*26.5%)/(1-26.5%)
Capital Related Revenue Requirement (CRRR)	**150.7**	**225.7** R	**137.4**	**206.5**	S=N+O+P+Q

	2023	2024	
Cumulative CRRR before change in depreciation	150.7	376.4	R
Cumulative CRRR after change in depreciation	137.4	343.9	S
Amount Recorded in DVA (payable)	**(13.3)**	**(32.5)**	T=S-R

[1] *For simplicity, this illustrative example uses an annual average rate base calculation*

[2] *CCA is not impacted by the change in accounting useful lives, since it is based on In-service additions*

[3] *Considerations of Bill C-97 are not factored and a CCA rate of 8% is used to simplify the illustration. Half-year rule applied for first year of additions*

b) When capturing these revenue requirement impacts, Toronto Hydro is not proposing to apply the same methodology and mechanics as Account 1576, Accounting Changes Under CGAAP (including a return component applied to the balance). Toronto Hydro's proposed approach differs from that of Account 1576, Accounting Changes Under CGAAP. Please see Toronto Hydro's response to part a) of this interrogatory for an illustrative example of what will be recorded in the new sub-account. The proposed methodology captures components related to the net change in PP&E since all of it relates to the changes in depreciation, as well as the Return on Rate Base, both of which are components of Appendix 2-EC, which shows the methodology for Account 1576.[1]

While both methodologies consider the return on rate base, Toronto Hydro's proposed methodology also captures the impacts to the PILS component of revenue requirement and includes carrying charges applied to the balance, both of which drive a balance in favour of customers.

c) Yes, Toronto Hydro intends to implement the changes in depreciation rates for financial reporting purposes, effective January 1, 2023.

d) As indicated in the draft accounting order submitted as Appendix A to Toronto Hydro's response to interrogatory 1-Staff-18, Toronto Hydro proposes to track the difference in revenue requirement impacts of the existing and updated depreciation rates over 2023 and 2024 in the proposed new sub-account and will apply to clear the balances in the account to ratepayers at rebasing. Toronto Hydro will also reflect the

[1] OEB Appendix 2-EC based on 2018 Filing Requirements.

new depreciation rates in revenue requirement calculations in its next rebasing application.

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 18:

Reference(s): EB-2022-0065, Tab 4, Schedule 1, Page 1

In the current proceeding, Toronto Hydro filed a draft accounting order which is proposed to revise the CRRRVA to include a sub-account related to depreciation useful lives changes. OEB staff requires clarification on the draft accounting order.

a) Please confirm that the effective date of the new sub-account would be January 1, 2023 and would remain in place until the effective date of its next cost-based rates proceeding. If yes, please update the draft accounting order. If no, please explain.

b) If Toronto Hydro agrees to establish a new sub-account of Account 1508, Other Regulatory Assets, to track the above-noted impacts, rather than using a sub-account of the CRRRVA, please update the draft accounting order. If this is not the case, please explain.

c) If Toronto Hydro agrees to capture the revenue requirement impacts related to the above-noted impacts using the same methodology and mechanics as Account 1576, Accounting Changes Under CGAAP (including a return component applied to the balance but excluding carrying charges), please update the draft accounting order, including an illustrative example. If this is not the case, please explain.

d) If Toronto Hydro agrees to use the Account 1576 approach, please confirm that Toronto Hydro would record the cumulative difference between its net property,

plant and equipment (PP&E) under its former depreciation policies and its net PP&E under the revised depreciation policies. If yes, please update the draft accounting order accordingly to reflect this approach. If no, please explain.

e) If Toronto Hydro proposes to record the amounts in the new sub-account on an annual basis (and not cumulative), as discussed in an earlier interrogatory, please update the draft accounting order accordingly.

f) When Toronto Hydro refers to "revenue requirement differences", please update the draft accounting order to refer what will be captured in the sub-account.

g) Please confirm that the offset to the new sub-account would be Account 4305, Regulatory Debits, instead of Account 4080, Distribution Services Revenue, and update the draft accounting order. If this is not the case, please explain.

h) If Toronto Hydro confirms that the new sub-account would be asymmetrical (i.e., in favour of customers), please update the sample journal entries in the draft accounting order to reflect credits to the new sub-account, instead of debits. If this is not the case, please explain.

RESPONSE:

a) Yes, Toronto Hydro confirms that the effective date of the new sub-account would be January 1, 2023 and would remain open until the balances are cleared as per the directions provided by the OEB at the next rebasing application. Please see Appendix A to this response for the draft accounting order, which Toronto Hydro has updated

accordingly.

b) Yes, Toronto Hydro has updated the draft accounting order, attached as Appendix A to this response, to reflect the establishment of a new sub-account of Account 1508, Other Regulatory Assets.

c) No, Toronto Hydro is not proposing to use the Account 1576 approach. Please see Toronto Hydro's responses to parts a) and b) of interrogatory 1-Staff-17 which show the proposed methodology and its differences from the Account 1576 approach. Toronto Hydro is proposing to have carrying charges applied on the balance. Toronto Hydro believes that the approach proposed results in a fair return to the ratepayer since it encompasses all components of capital-related revenue requirement that is impacted by the change in depreciation.

d) While Toronto Hydro is not proposing to use the Account 1576 approach, the proposed methodology will record the cumulative difference between the revenue requirement derived from its net property, plant and equipment ("PP&E") under its former depreciation policies and its net PP&E under the revised depreciation policies in the proposed new sub-account. Please see Toronto Hydro's response to part a) of interrogatory 1-Staff-17 for an illustrative example.

e) Toronto Hydro proposes to record the amounts in the new sub-account on a cumulative basis, which has been reflected in the draft accounting order attached as Appendix A to this response. Please see Toronto Hydro's responses to part f) of interrogatory 1-Staff-16 for additional details.

f) Toronto Hydro has updated the draft accounting order to specify the components of the revenue requirement differences, which have also been explained in Toronto Hydro's response to part a) of interrogatory 1-Staff-17.

g) No, the offset for the new sub account will be 4080 – Distribution Services Revenue as the purpose of the new sub-account is to return the excess revenues being earned by Toronto Hydro to the rate payers. This is similar to the treatment of other current Toronto Hydro Deferred Variance Accounts (e.g. Capital Related Revenue Requirement Variance Account (CRRRVA), Externally Driven Capital).[1] This treatment also aligns with International Financial Reporting Standards ("IFRS") policy and thus the offsets will be booked against Distribution revenues in externally issued Financial Statements of Toronto Hydro.

h) Toronto Hydro confirms that the new sub-account will be asymmetrical in favour of customers and has reflected this in the updated draft accounting order attached as Appendix A to this response.

[1] EB-2014-0116, Draft Rate Order, Schedule 11 (January 22, 2016) at pages 1-2, 12-13.

DRAFT ACCOUNTING ORDERS

1. NEW VARIANCE AND DEFERRAL ACCOUNT – DRAFT ACCOUNTING ORDER

Variance Account for Useful Life Changes – Draft Accounting Order

Toronto Hydro intends to complete a comprehensive depreciation study on its assets prior to its next rebasing application in accordance with the Board's decision on the 2020-2024 Custom IR application (EB-2018-0165). The last depreciation study was completed in August 2009 and the utility has been performing annual reviews of its assets' useful lives to ensure consistency with its capitalization policy. The new depreciation study could yield different useful life requirements than the current practice for some Toronto Hydro assets, given the comprehensive nature of the study and the evolution in construction processes and materials since 2009. Based on careful evaluation of the final depreciation study report and using prudent judgement, Toronto Hydro intends to adopt changes in asset useful lives where material differences might exist between the report's recommendations and current practices. This change in useful lives would impact all components of Toronto Hydro's capital revenue requirement (please refer to Exhibit A below) as they relate to changes in depreciation.

Toronto Hydro proposes to track the difference in revenue requirement impacts of the existing and updated depreciation rates over 2023 and 2024 in a new account. The account will be effective January 1, 2023 and the balance will be cleared as per directions provided by the OEB at the next rebasing application. The account will be cumulative and asymmetrical in favour of customers.

Carrying charges will apply to the opening revenue requirement balances in the account (exclusive of accumulated interest) at the OEB-approved rate for deferral and variance accounts.

Toronto Hydro will use the following accounts to record the amounts described above:

- Account 1508, Other Regulatory Assets, Subaccount Useful Life Changes
- Account 1508, Other Regulatory Assets, Subaccount Useful Life Changes Carrying Charges

The sample accounting entries for the variance accounts are provided below.

A. To record balance in the Useful Life Changes Variance Account:
    - CR 1508 Other Regulatory Assets, Subaccount Useful Life Changes
    - DR 4080 Distribution Services Revenue

B. To record the carrying charges in subaccount Useful Life Changes:
    - CR 1508 Other Regulatory Assets, Subaccount Useful Life Changes Carrying Charges
    - DR 6035 Other Interest Expense

Exhibit A - Example of Revenue Requirement Impact calculation for changes in useful lives:

	Before change in depreciation		After change in depreciation		
	2023	2024	2023	2024	
Opening Net Book Value	1,000.0	1,100.0	1,000.0	1,110.0	A
Net Additions	200.0	210.0	200.0	210.0	B
Depreciation	(100.0)	(150.0)	(90.0)	(135.0)	C
Closing Net Book Value	1,100.0	1,160.0	1,110.0	1,185.0	D=A+B+C
Average Net Book Value/Rate Base[1]	1,050.0	1,130.0	1,055.0	1,147.5	E=(A+D)/2
Equity %	40%	40%	40%	40%	F
Debt %	60%	60%	60%	60%	G
Return on Equity %	8.5%	8.5%	8.5%	8.5%	H
Interest Rate %	3.6%	3.6%	3.6%	3.6%	I
Capital Cost Allowance (CCA) Rate	8%	8%	8%	8%	J
Capital Cost Allowance on 2023 opening Undepreciated Capital Cost (UCC)[2]	150.0	130.0	150.0	130.0	K
Capital Cost Allowance- 2023-2024 Additions[3]	8.0	23.8	8.0	23.8	L=B*J
Total CCA	**158.0**	**153.8**	**158.0**	**153.8**	M=K+L

	2023	2024	2023	2024	
Return on Equity	35.8	38.5	36.0	39.1	N=E*F*H
Deemed Interest	22.9	24.7	23.0	25.1	O=E*G*I
Depreciation	100.0	150.0	90.0	135.0	P=(-C)
PILS	(8.0)	12.5	(11.6)	7.3	Q=((N+P-M)*26.5%)/(1-26.5%)
Capital Related Revenue Requirement (CRRR)	**150.7**	**225.7**	**137.4**	**206.5**	S=N+O+P+Q

	2023	2024	
Cumulative CRRR before change in depreciation	150.7	376.4	R
Cumulative CRRR after change in depreciation	137.4	343.9	S
Amount Recorded in DVA (payable)	**(13.3)**	**(32.5)**	T=S-R

[1] *For simplicity, this illustrative example uses an annual average rate base calculation*

[2] *CCA is not impacted by the change in accounting useful lives, since it is based on In-service additions*

[3] *Considerations of Bill C-97 are not factored and a CCA rate of 8% is used to simplify the illustration. Half-year rule applied for first year of additions*

RESPONSES TO OEB STAFF INTERROGATORIES

INTERROGATORY 19:

Reference(s): EB-2022-0065, Tab 2, Schedule 1, Page 11

In the current proceeding, Toronto Hydro stated that the preliminary results of the depreciation study indicate changes in financial useful lives that will likely lead to an overall net decrease to the depreciation expense for 2023 and 2024.

However, OEB staff notes that the quantification of the expected impacts was not included in Toronto Hydro's application.

a) Please quantify the impact of the expected change in depreciation expense for 2023 and 2024, showing the differences between using the proposed depreciation rates and using existing depreciation rates, by year, as well as any other revenue requirement impacts.

b) Please explain whether these impacts reflecting preliminary results known at this time are expected to be materially different, once the final results become available.

c) If the preliminary results (or final results, if available) do not indicate changes in the useful lives will lead to an overall net decrease to depreciation expense for each of 2023 and 2024, as well as any other revenue requirement impacts. please explain.

d) If the depreciation study results continue to be preliminary at this time, how certain is Toronto Hydro that the final results will lead to an overall net decrease in depreciation expense, as well as any other revenue requirement impacts, for each of 2023 and 2024? Please explain.

RESPONSE:

a) Toronto Hydro notes that the depreciation study has not been finalized yet and therefore, the expected depreciation expense and revenue requirement impacts are unavailable pending the results of the study. The utility also notes that the estimated impacts are not necessary for the approval of the requested variance account and further submits that leaving a fulsome review of the study results and impacts to Toronto Hydro's next rebasing application would be the preferable path from a regulatory efficiency perspective, rather than submitting incomplete information that will require a reconciliation at rebasing. This approach would also better align with other disclosure regimes.

b) Please see Toronto Hydro's response to part a) of this interrogatory.

c) Please see Toronto Hydro's response to part d) of this interrogatory.

d) Though the depreciation study results continue to be preliminary at this time, Toronto Hydro is reasonably certain that the final results will lead to an overall net decrease in depreciation expense for each of 2023 and 2024. This is given the comprehensive nature of the study, the evolution in construction processes and materials since 2009, as well as initial operational interviews between operations representatives and the consultant, Concentric Advisors, ULC.

RESPONSES TO ASSOCIATION OF MAJOR POWER CONSUMERS IN ONTARIO INTERROGATORIES

INTERROGATORY 1:

Reference(s): Tab 2, Schedule 1, Page 11

Toronto Hydro indicates:

"In the 2020-2024 Custom IR Decision, the OEB directed Toronto Hydro to file in the next rebasing application its annual useful lives reviews or a new depreciation study. Toronto Hydro determined that the latter option is more appropriate since the last depreciation study was undertaken more than a decade ago.

In preparation for the 2025 rebasing application, a third-party depreciation study is currently underway. The final results of the study are expected at the end of 2022 and Toronto Hydro intends to implement the revised useful lives as of January 1, 2023. Although the study is still in progress, preliminary results indicate changes in financial useful lives that will likely lead to an overall net decrease to the depreciation expense for 2023 and 2024, the remaining two years of the current rate period. As a result Toronto Hydro expects there will be a material variance, to the benefit of customers, in the approved versus actual depreciation expense that underlies the 2023 and 2024 CPCI."

a) Please identify the party that is undertaking the study.

b) Please provide the Terms of Reference for the study.

c) Please provide the start date of the study and expected completion date.

d) Please provide details of the preliminary findings of the study and the assets impacted where Toronto Hydro expects there will be a material variance in the depreciation expense.

e) Please discuss the impacts if THESL is unable to implement the change in useful lives as of January 1, 2023.

RESPONSE:

a) The party undertaking the study is Concentric Advisors, ULC.

b) The following summarizes the Terms of Reference for the study:

- The study will be in accordance with International Financial Reporting Standards ("IFRS"), Ontario Energy Board requirements and expectations, and any relevant industry standards;
- It will determine financial useful lives for existing asset classes, including both distribution and non-distribution (facilities, fleet, IT). The study will assess whether current componentization is sufficient and in line with IFRS standards, and if not, recommend where to further componentize to be in line with IFRS and industry standards;
- The study shall include support for the rationale of the proposed asset useful lives; and
- Other support includes application support, responses to audit queries, and quantification of impacts.

c) The start date of the study was May 2022, and the most recent expected completion date is January 2023.

d) Toronto Hydro cannot provide this information at this time. Please see Toronto Hydro's response to interrogatory 1-Staff-15 part c).

e) Toronto Hydro will implement the changes in the period in which the report is finalized. Please see Toronto Hydro's response to interrogatory 1-Staff-15 part b).