



November 11, 2022

Ms. Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Re: Toronto Hydro-Electric System Ltd. 2023 Rate Application
AMPCO's Final Submission
Board File No. EB-2022-0065

Dear Ms. Marconi:

Attached please find AMPCO's final submissions in the above proceeding.

Please do not hesitate to contact me if you have any questions or require further information.

Best Regards,

A handwritten signature in blue ink, appearing to read 'Colin Anderson'.

Colin Anderson
President

Copy to: Toronto Hydro-Electric System Ltd.

EB-2022-0065
Toronto Hydro-Electric System Limited
Application for electricity distribution rates
effective January 1, 2023

AMPCO Submissions November 11, 2022

Toronto Hydro-Electric System Limited (Toronto Hydro) filed its 2023 Custom Incentive Rate-setting Annual Update application with the Ontario Energy Board (OEB) on August 23, 2022, under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B) seeking approval for changes to its electricity distribution rates to be effective January 1, 2023. Toronto Hydro has also applied for approval to establish a new sub-account as part of its existing Capital-Related Revenue Requirement Variance Account (CRRRVA), to track an expected net decrease in depreciation expense arising from changes to the financial useful lives of its capital assets.

AMPCO's submissions are focused on Toronto Hydro's proposed new variance account to track depreciation impacts related to expected changes to the financial useful lives of its capital assets.

Background

In its Decision in Toronto Hydro's 2020-2024 Custom IR application, the OEB directed Toronto Hydro to file either the annual useful lives reviews it undertakes to demonstrate that no change is required to the useful lives of assets, or a new depreciation study.¹ Given that the previous depreciation study (Kinectrics August 2009 report) will be over 15 years old when the next rebasing application is filed and the evolution in construction processes and materials since 2009, Toronto Hydro determined a new depreciation study is the appropriate course of action.

Concentric Advisors, ULCA² is currently preparing a depreciation study for Toronto Hydro's 2025 rebasing application. The expected completion date of the depreciation study is January 2023.³

Preliminary results of the new study indicate changes in financial useful lives that will likely lead to an overall net decrease to the depreciation expense for 2023 and 2024. 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.⁴

In the application, Toronto Hydro proposes to separately track the difference in revenue requirement impacts of the existing and updated depreciation rates over 2023 and 2024 in a

¹ EB-2018-0165, Decision and Order (December 19, 2020), p.146

² AMPCO IR-1 (a)

³ AMPCO IR-1 (c)

⁴ Tab 2 Schedule 1 p.11

new subaccount of the CRRRVA which was approved in the 2020-2024 Custom IR Decision. As the CRRRVA is asymmetrical in favour of customers, the new subaccount would also be asymmetrical.

Through the interrogatory process, Toronto Hydro agreed that a new account should be established rather than establishing a sub-account under the existing CRRRVA.⁵ The original scope of the CRRRVA was to capture the revenue requirement variances between forecast and actual in-service additions and did not include revenue requirement impacts from updates of Toronto Hydro's depreciation useful lives. Thus, Toronto Hydro updated the draft accounting order in Board Staff IR-18 (b), to reflect the establishment of a new sub-account of Account 1508, Other Regulatory Assets. Toronto Hydro proposes that this new sub-account be cumulative in nature and asymmetrical, consistent with the CRRRVA. The account would remain open until Toronto Hydro applies to clear the balances in the account.

DVA Eligibility Criteria

The OEB's Filing Requirements specify that a distributor seeking an accounting order to establish a DVA, must demonstrate how the following eligibility criteria have been met: causation, materiality, and prudence.⁶

Causation: the forecasted expense must be clearly outside of the base upon which rates were derived.

Toronto Hydro indicates rates for 2023-2024 were derived using the existing depreciation rates, therefore any changes to those depreciation rates will be outside that base.

Materiality: the forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the distributor, otherwise they must be expensed in the normal course and addressed through organizational productivity improvements.

Toronto Hydro indicates 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 nature of the costs and forecasted quantum must be based on a plan that sets out how the costs will be reasonably incurred, although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant

⁵ Board Staff IR-16 (d)

⁶ Filing Requirements For Electricity Distribution Rate Applications - 2022 Edition for 2023 Rate Applications Chapter 2 Cost of Service p.64-65

must provide evidence demonstrating that the option selected represents a cost-effective option (not necessarily least initial cost) for ratepayers.

Toronto Hydro responded that 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.

In considering the above, AMPCO submits Toronto Hydro has demonstrated the eligibility criteria to establish a DVA has been met.

AMPCO Position

AMPCO supports Toronto Hydro's proposal to establish a new sub-account of Account 1508, Other Regulatory Assets to track depreciation impacts in 2023 and 2024 related to expected changes to the financial useful lives of its capital assets. Toronto Hydro expects there will be a material variance, to the benefit of customers.

Toronto Hydro provided information on its proposed methodology and mechanics to capture revenue requirement impacts and how its approach differs from that of Account 1576, Accounting Changes Under CGAAP.⁷ Given the expected depreciation expense and revenue requirement impacts are unavailable pending the results of the study, and 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, AMPCO submits the OEB should make clear in its decision that it is only approving the establishment of the account at this time. Issues regarding calculation methodology and impacts should be considered at rebasing, when Toronto Hydro applies to clear the balances in the account and includes new depreciation rates in revenue requirement calculations.

⁷ Board Staff IR-17 (b)