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May 9, 2024

VIA E-MAIL

Ms. Nancy Marconi  
Registrar (registrar@oeb.ca)  
Ontario Energy Board  
Toronto, ON

Dear Ms. Marconi:

**Re: EB-2023-0195**  
**Toronto Hydro-Electric System Limited CIR Application for rates beginning January 1, 2025**  
**Intervenor Evidence Interrogatories – M1 PEG**

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Please find attached the interrogatories of VECC in the above-noted proceeding. We have also directed a copy of the same to the Applicant.

Yours truly,

A handwritten signature in black ink, appearing to read 'Mark Garner', is written over a light blue horizontal line.

Mark Garner  
Consultants for VECC/PIAC

Email copy:

Thomas Eminowicz, Board Staff – PEG M1 Evidence  
[Thomas.eminowicz@oeb.ca](mailto:Thomas.eminowicz@oeb.ca)

Daliana Coban, Director, Regulatory Applications & Business Support  
[RegulatoryAffairs@TorontoHydro.com](mailto:RegulatoryAffairs@TorontoHydro.com)

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For interrogatory clarifications please contact Mark Garner at 647-408-4501 or [markgarner@rogers.com](mailto:markgarner@rogers.com)

**REQUESTOR NAME**      **VECC**  
**TO:**                      **PEG Evidence M1 CIR 2.0 for Toronto**  
**DATE:**                  **April 9, 2024**  
**CASE NO:**              **EB-2023-0195**  
**APPLICATION NAME**    **2025 Custom Rate Application**

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**M1 –VECC -1**

**Reference: PEG CIR 2.0 M2, page 19**

*However, index-based ARMs are typically based on long-run productivity trends and thus may not appropriately compensate utilities for necessary cost surges. The capital cost of utilities is typically less volatile than OM&A expenses, but capex surges are sometimes needed by VIEUs and utility distribution companies alike. Moreover, capital cost tends to stay high for many years after capex surges whereas OM&A expenses may be unusually high one year and unusually low the next. Thus, if the ARM does not fund a capex surge, the utility can materially underearn for several years.*

- a) What evidence are these statements relying upon? Specifically, when “capital surges” presumably it is high, when it is not “surging” presumably it is back to trend (or at a new trend). Similarly, we are unaware of OM&A expenses for electricity distributors in Ontario fluctuating in the sense of going up and then dramatically down again. Rather our experience is that OM&A expenses consistently trend upward overtime. Please clarify the point trying to be made at this reference.
  
- b) The Ontario Energy Board has now had a number of rebased MRPs to consider and a number of multi-year distribution system plans (DSP)s that accompanied them. Has PEG studied electricity distribution capital spending in Ontario see if there are any discernable patterns related to the rate setting mechanism employed? For example, our antidotal observation, based on involvement in numerous rebasing proceedings, is there is a phenomenon of “step” or upward trend changes in capital spending beginning in the cost of service bridge year and continuing in the test year of the new rate plan. Is this phenomenon what is meant by “capital surging” in the above reference?
  
- c) A pattern of capital spending “step change” is observable in Toronto Hydro’s current application. This might indicate that there are issues with capital investment that are not related to asset attrition (in the sense of replacing depreciating assets) but with other factors including the “gold plating” of capital investment. How do the various ARMs mechanisms discussed in the evidence fend against utility gold plating (i.e. reduce the incentive to overbuild assets)?

## **M1 –VECC -2**

**Reference: PEG CIR 2.0 M2, pages 9, 91**

“The California and Alberta K-bar approaches are both legitimate candidates.”

- a) It is unclear to us precisely how a “K-bar” mechanism would work in Toronto Hydro’s case. Can PEG provide relevant extracts from either of the above noted proceedings which might better illustrate its specific application?
- b) It is unclear to us the criteria by which PEG chose its K-Bar candidates in Table 2. Please elucidate and specifically address whether it is specific categories of investments or simply whether the proposed spending on an investment is a significant outlier as compared to past spending.

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