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via Regulatory Electronic Submission System (RESS)

October 11, 2024

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


Dear Ms. Marconi:

**Re: OEB File No. EB-2023-0195, Toronto Hydro-Electric System Limited (“Toronto Hydro”)
2025-2029 Custom Rate Application for Electricity Distribution Rates and Charges –
Settlement Proposal Presentation Day Submission**

Please find enclosed Toronto Hydro’s submission in response to the questions posed by the Ontario Energy Board (OEB) in Procedural Order No. 9. We are filing these materials ahead of the requested deadline to provide the OEB and interested parties ample time to review in advance of the Settlement Presentation Day, which is scheduled for October 17, 2024.

Should you have any questions or require further information, please do not hesitate to contact us.

Sincerely,

**Daliana
Coban**  Digitally signed by Daliana Coban
DN: cn=Daliana Coban, c=CA,
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Date: 2024.10.11 13:31:06 -04'00'

Daliana Coban
Director, Regulatory Applications & Business Support
Toronto Hydro-Electric System Limited

Cc: Charles Keizer and Arlen Sternberg, Torys LLP; all intervenors

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 Sch. B
(the “Act”);

AND IN THE MATTER OF an application by Toronto Hydro-Electric System
Limited (“Toronto Hydro”) for an Order or Orders made pursuant to section 78
of the Act, approving or fixing just and reasonable rates for the distribution of
electricity.

TORONTO HYDRO-ELECTRIC SYSTEM LIMITED

SETTLEMENT PROPOSAL PRESENTATION DAY SUBMISSION

October 11, 2024

1.0 INTRODUCTION AND OVERVIEW

On May 27, 2024, Toronto Hydro and the Parties began settlement discussions, and on August 16, 2024, Toronto Hydro filed a substantial Settlement Proposal with the Ontario Energy Board (OEB).¹ On September 3, 2024, OEB staff filed a submission providing comment on the Settlement Proposal and affirming that it aligns with the public interest.²

On September 27, 2024, the OEB Panel issued Procedural Order No. 9, requesting clarification with respect to three areas of the Settlement Proposal: (i) annual reporting of capital expenditures; (ii) the 2026 annual rates application, and (iii) new deferral and variance accounts, Revenue Variance Account (RVA) and Demand Related Capital Variance Account (DRCVA).³ This submission outlines Toronto Hydro's responses to the questions posed by the OEB in Procedural Order No. 9.

2.0 CAPITAL EXPENDITURE REPORTING

The OEB Panel seeks clarification regarding capital expenditure reporting. In particular, the OEB would like to know if Toronto Hydro is able to provide the following information:

- a) **Variance Analysis:** Provide variance explanation for Tables 8, 9, 20 and 21 in the Settlement Proposal of actual versus the Settlement Proposal forecast amounts.
- b) **Prospective Forecast:** Include the planned expenditures for the prospective year, by program, in the same format as Chapter 2 Appendix 2-AA filing requirements.
- c) **Filing with Annual Applications:** File information from item #1 in Appendix A to the Settlement Proposal alongside the information requested in part (a) and (b) above as part of the annual CIR application.⁴

In short, Toronto Hydro can provide the information the OEB Panel requests in (a) and (b), however for duplication and timing reasons, the utility proposes that this information be provided through other existing OEB processes other than as suggested in (c). This is discussed below.

In the Settlement Proposal, Toronto Hydro and the Parties agreed that Toronto Hydro will report actual capital expenditures and in-service additions by program annually to the OEB. This is consistent with the

¹ The Toronto Hydro Settlement Proposal, August 16, 2024, ("Settlement Proposal") was supported by the following parties: the Association of Major Power Consumers in Ontario (AMPCO), the Building Owners and Managers Association (BOMA), the Coalition of Concerned Manufacturers and Businesses of Canada (CCMBC), Consumers Council of Canada (CCC), the Distributed Resource Coalition (DRC), Energy Probe Research Foundation, Pollution Probe (PP), the School Energy Coalition (SEC), and the Vulnerable Energy Consumers Coalition (VECC). Environmental Defence supported the Settlement Proposal but took no position on two issues. The Power Worker's Union (PWU) participated in settlement but did not take any positions.

² OEB Staff Submission on the Settlement Proposal, September 3, 2024, at page 13.

³ OEB Procedural Order No. 9 at pages 1-2.

⁴ OEB Procedural Order No. 9 at pages 1-2.

information outlined in Tables 8, 9, 20 and 21 of the Settlement Proposal. Further, the utility agreed to post this information on its website alongside the Electricity Distributor Scorecard.⁵

The programmatic variance analysis requested in part (a) has historically been provided with the utility's rebasing application, in Section E4 of the Distribution System Plan.⁶ However, subject to the practical considerations outlined in Appendix A of this submission, the utility agrees to file variance analysis requested in (a) alongside the capital expenditures and in-service additions by program noted above.

Toronto Hydro believes that providing this information through annual reporting is most efficient and useful for the OEB and other interested parties. Accordingly, Toronto Hydro submits that it would be redundant to *also* file it with the annual rate update application (as the same information will be provided both through annual reporting as well as with Toronto Hydro's next rebasing application).

As noted in Appendix A of this submission, Toronto Hydro undergoes an annual business planning process to set the capital program for the upcoming year based on various considerations. The prospective forecasts identified in part (b) are an output of this planning process, which concludes in the fourth quarter of the calendar year, once the Board of Directors approves the business plan.

With respect to the prospective forecast information requested in part (b) above, this is a product of Toronto Hydro's annual planning and budget process which does not conclude until mid-to-late November each year (for the following calendar year). The timing of finalization of this information would be too late in the year to be included in either Toronto Hydro's annual rate application or its annual OEB Electricity Distributor Scorecard reporting, both of which are typically filed in August.

For reasons of efficiency and transparency to all interested parties, Toronto Hydro would prefer to provide this information within an existing process, which due to the timing considerations noted above, would mean it would be provided as part of the utility's next rebasing application. However, if preferred by the OEB, Toronto Hydro could file this information separately (outside existing application and reporting cycles) once it becomes available.

3.0 2026 RATES APPLICATION

The OEB Panel has requested what information Toronto Hydro expects to file with its 2026 rates application to support implementation of the proposed custom rate framework, and in particular the Custom Revenue Cap Index (CRCI) at the rate class level.

For context, and consistent with OEB policy and past practice, Toronto Hydro proposes to file annual rate update applications to: (i) establish Retail Transmission Service Rates, Retail Service Charges and Specific Charge for access to the power poles for the upcoming year, (ii) clear Group 1 Account balances; (iii) clear

⁵ Settlement Proposal at page 54.

⁶ Exhibit 2B, Section E4.

the proposed Revenue Variance Account on an interim basis; and (iv) apply the approved custom index to set the annual distribution rates and charges for years 2026 through 2029.

In 2026, Toronto Hydro anticipates filing the following information to support implementation of the CRCI at the rate class level:

- The 2026 Inflation Factor for electricity distributors, as established annually by the OEB;
- The 0.6% X-Factor, as approved by the OEB in this application;
- The 2026 Revenue Growth Factor (“RGF”), as approved by the OEB in this application;
- The 2026 customer and load forecast, as approved by the OEB in this application;
- The 2026 fixed charge ceiling by rate class in accordance with the OEB’s Cost Allocation Model;
- The 2025 revenue, as approved by the OEB in this application;
- The 2025 rates and charges by rate class, as approved by the OEB in this application; and
- Tables with supporting calculations to demonstrate the implementation of the CRCI, relying on the inputs noted above.

4.0 NEW DEFERRAL AND VARIANCE ACCOUNTS

The OEB Panel seeks information regarding the new Group 2 deferral and variance accounts set out in Table 19 of the Settlement Proposal – RVA, DRCVA, Non-Wires Solutions Operational Expenditures Variance Account and Cloud Computing Transitional Variance Account. Specifically, the OEB seeks to understand: (i) what information would Toronto Hydro expect to file with its annual rate applications regarding these new accounts; and (ii) how could the RVA and DRCVA operate (directionally) if there is a high degree of electrification affecting system winter and summer peaks as indicated in the Future Energy Scenarios from 2025-2029?⁷

Annual Rate Applications – New Group 2 Accounts

In the Settlement Proposal, Toronto Hydro and the Parties agreed that balances in the asymmetrical RVA should be disposed annually in order to provide these benefits to ratepayers as soon as reasonably possible.⁸ This annual disposition will take place on an interim basis in order to: (i) enable the OEB to approve the disposition under delegated authority, and (ii) enable Parties the opportunity to review the final disposition of the account in the next rebasing application.⁹ In addition, the Settlement Proposal at Appendix A item #2 also requires the utility to file with the OEB (copied to all the Parties) the annual balance in the DRCVA and report this information on its public website.¹⁰

⁷ OEB Procedural Order No. 9 at page 2.

⁸ OEB Procedural Order No. 9 at page 27.

⁹ OEB Procedural Order No. 9 at page 27.

¹⁰ OEB Procedural Order No. 9 at page 54.

Aside from the RVA and DRCVA balances noted above, Toronto Hydro does not intend to file any other Group 2 account balances in the annual rate applications as these accounts are not subject to review and disposition until the next rebasing application. However, if the OEB would like Toronto Hydro to also report the annual balances in the Non-Wires Solutions Operational Expenditures Variance Account and the Cloud Computing Transitional Variance Account, the utility proposes that this information be included with the reporting commitments, rather than the annual rate application, for efficiency and so that all interested parties have access to the information.

Impact of Electrification on the RVA and DRCVA

The accelerated adoption of electrified technologies such as electric vehicles and heat pumps may require Toronto Hydro to make additional infrastructure investments to prepare the local grid for increased demand.¹¹ The DRCVA enables Toronto Hydro to manage these costs, ensuring that the system remains safe, reliable and capable of handling the increased loads.¹²

Through the DRCVA, Toronto Hydro would record the incremental costs (i.e. revenue requirement) incurred through eligible capital programs to support demand growth. However, it is important to note that: (i) rate recovery would be deferred until the next rebasing application, (ii) the utility would be required to finance the incremental costs on its balance sheet without interim rate recovery, and (iii) customers would only ultimately be charged for eligible costs exceeding a 15% threshold (i.e. the dead-band).¹³ The impact of the dead-band in real terms is that it requires Toronto Hydro to self-fund approximately \$24 million of revenue requirement before it can seek disposition of incremental costs incurred in the eligible programs.¹⁴

As customer adoption of electrified technologies accelerates, the utility could also see higher net distribution revenues due to increased electricity consumption and greater peak demand.¹⁵ If these revenues exceed the forecasts in the utility's Settlement Proposal, the asymmetrical RVA credits any excess total net revenues *back to customers*.¹⁶

¹¹ Exhibit 1B, Tab 2, Schedule 1 at page 34.

¹² Exhibit 1B, Tab 2, Schedule 1 at page 40.

¹³ Settlement Proposal at pages 15, 16 and 27.

¹⁴ This estimate is based 2025 nominal dollars, as noted in the Settlement Proposal, Schedule 31 at page 1, Table 2.

¹⁵ There is a typical time lag between making capacity investments and when the corresponding demand growth fully materializes (2B-SEC-61). During this period, Toronto Hydro might incur costs (recorded in the DRCVA) while the increased revenues from electrification are delayed. This time lag emphasizes the need for flexibility to plan and execute infrastructure upgrades ahead of the actual load growth to prevent the grid from being underprepared as more customers adopt electrified technologies.

¹⁶ Settlement Proposal at pages 15, 16 and 27.

APPENDIX A: CAPITAL PLAN EXECUTION KEY CONSIDERATIONS

In line with existing OEB policy and previous decisions, Toronto Hydro's 2025-2029 Custom Incentive Rate Application provides a flexible, long-term approach to capital planning and execution rather than focusing on individual projects, like those funded through mechanisms such as the Incremental Capital Module (ICM).¹⁷ This approach allows the utility to better respond to changing operational conditions throughout the five-year period.¹⁸

Conducting capital construction works in a densely populated urban area, Toronto Hydro encounters challenges such as physical site constraints, severe weather (e.g. flooding and freezing), evolving compliance requirements, and coordination with other utilities and government authorities. The utility requires flexibility to manage these operational conditions while delivering its multi-year capital plan.¹⁹

Each year, Toronto Hydro must adjust its program delivery to address real-time factors that impact the program, while managing the execution of the overall five-year plan outlined in the Settlement Proposal. Additionally, through ongoing integrated planning, the utility needs to calibrate its capital plan annually to manage financial considerations.²⁰ This includes changes in the mix and timing of in-service assets resulting from the program delivery adjustments, as well as managing the impact of the 0.9% capital stretch factor through planning (i.e. pacing and prioritization) and operational efficiencies.²¹

The adaptive nature of the annual planning process ensures that Toronto Hydro can navigate the complexities of its operating environment and deliver its multi-year incentive-based capital plan in an efficient and effective manner.

¹⁷ OEB Handbook for Utility Rate Applications, October 13, 2016 at page 25.

¹⁸ OEB Report of the Board, Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach (October 18, 2012) at page 9-10, 14 and 19.

¹⁹ Exhibit 1B, Tab 3, Schedule 3 at pages 2-7.

²⁰ Exhibit 2B, Section E4 at page 3.

²¹ Exhibit 2B, Section E4 at page 2.