



EB-2012-0064

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

AND IN THE MATTER OF an application by Toronto
Hydro-Electric System Limited for an order approving just
and reasonable rates and other charges for electricity
distribution to be effective June 1, 2012, May 1, 2013 and
May 1, 2014.

BEFORE: Marika Hare
Presiding Member

Cathy Spoel
Member

PARTIAL DECISION AND ORDER

April 2, 2013

Toronto Hydro-Electric System Limited (“THESL”) filed an application with the Ontario Energy Board on May 10, 2012, under section 78 of the *Ontario Energy Board Act, 1998*, and the Board’s Incentive Regulation Mechanism (“IRM”) framework seeking approval for changes to the rates that THESL charges for electricity distribution, to be effective June 1, 2012, May 1, 2013 and May 1, 2014. Rates were declared interim on May 30, 2012. The Board issued a Notice of Application and Hearing dated June 27, 2012.

The intervenors to this proceeding are listed in Appendix A. The Approved Final Issues List is attached as Appendix B. The Board’s consideration of the matters in this proceeding follows the order and wording of the Approved Issues List.

As set out more fully under “Scope of the Partial Decision and Order”, this Decision only deals with the 2012 and 2013 rate years.

A Settlement Conference was held on November 28, 29 and 30th, but no settlement was reached.

The oral hearing was held from December 10 – 14, 2012 for all aspects of the 2012 and 2013 components of this application, except for those related to the Bremner Station project, as will be outlined subsequently. The argument phase of this part of the hearing was completed on January 29, 2013.

The oral hearing on the Bremner Station project was held February 19 – 20, 2013. The argument phase for this project was completed on March 4, 2013.

THESL is one of 77 electricity distributors in Ontario regulated by the Board. The Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors (the "IR Report"), issued on July 14, 2008, established a three year plan for 3rd generation incentive regulation mechanism (i.e., rebasing plus three years). THESL's last cost-of-service application was for 2011 rates. Accordingly, THESL's rates for 2012, 2013 and 2014 will be adjusted on the basis of the IRM process, which provides for a mechanistic and formulaic adjustment to distribution rates and charges between cost of service applications.

To streamline the process for the approval of distribution rates and charges for distributors, the Board issued its IR Report, Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors on September 17, 2008 (the "Supplemental Report"), and Addendum to the Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors on January 28, 2009 (collectively the "Reports"). Among other things, the Reports provide the relevant guidelines for 2013 rate adjustments for distributors applying for distribution rate adjustments pursuant to the IRM process. On June 28, 2012, the Board issued an update to Chapter 3 of the Board's Filing Requirements for Transmission and Distribution Applications (the "Filing Requirements"), which outlines the application filing requirements for IRM applications based on the policies in the Reports.

Scope of the Partial Decision and Order

On October 22, 2012, THESL sent a letter to the Board which stated, among other things, that in order to provide ratepayers with clarity as to 2012 rates and to address critically needed capital work on its distribution system, it believed that this application

must be heard as expeditiously as possible and in 2012. THESL further stated that on October 31, 2012, in addition to updating its evidence, it would also be requesting a change in how the Board manages the application, specifically that the Board consider the work programs identified for 2012 and 2013 together and defer consideration of projects for 2014 to a later date.

In its October 31, 2012 letter, THESL clarified that its proposal to defer consideration of its 2014 projects did not include the Bremner Station project as THESL believed it was necessary to treat the Bremner Station project as an integrated three-year undertaking. Board approval for the whole of the first phase of this project is required at this time to allow THESL to enter into the construction and equipment supply commitments necessary to complete this project by the end of 2014.

In Procedural Order No. 3, the Board accepted THESL's proposal with one modification: in order to expedite matters the Board decided that evidence on the Bremner Station project would be heard separately in a later part of the proceeding.

This Partial Decision and Order addresses THESL's 2012 and 2013 projects and the entirety of the Bremner Station project.

The full record of the proceeding is available at the Board's offices.

Issue 1.1 Are the IRM Model filings by THESL, including the tax sharing proposal for 2012, in accordance with the Board's requirements and, if not, are any proposed departures adequately justified?

Background

Parties generally did not make submissions on this issue other than that THESL should be directed to make necessary updates such as those for Retail Transmission Rates.

THESL acknowledged that it expected the Board would direct it to update the GDP-IPI and stretch factor components of the IRM model for the 2013 IRM and ICM calculations, in accordance with the values issued by the Board for May 1 rate implementation.

Board Findings

The Board finds that THESL should make all necessary adjustments to the IRM model for both 2012 and 2013.

The Board accepts the 2012 IRM model that THESL has filed as part of this application as appropriate, subject to any adjustments ordered by this Decision and Order. THESL is directed to use the rates arising from this model as the base for the 2013 IRM model. The required 2013 adjustments are outlined below.

Price Cap Index Adjustment

As outlined in the *Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* and the *Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors* ("the Board's Incentive Regulation guidelines"), distribution rates under the IRM are to be adjusted by a price escalator, less a productivity factor of 0.72% and a stretch factor.

On March 21, 2013, the Board announced a price escalator of 1.60% for those distributors under IRM that have a rate year commencing May 1, 2013.

The stretch factors are assigned to distributors based on the results of two benchmarking evaluations to divide the Ontario industry into three efficiency cohorts. In its letter to Licensed Electricity Distributors dated November 28, 2012 the Board assigned THESL to efficiency cohort 3, being the least efficient group with a resulting cohort specific stretch factor of 0.6%.

On that basis, the Board has determined that the resulting price cap index adjustment is 0.28% (i.e. $1.60\% - (0.72\% + 0.6\%)$). The price cap index adjustment applies to distribution rates (fixed and variable charges) uniformly across customer classes.

The price cap index adjustment does not apply to the following components of delivery rates:

- Rate Riders;
- Rate Adders;
- Low Voltage Service Charges;

- Rural or Remote Rate Protection Charge;
- Standard Supply Service – Administrative Charge;
- Transformation and Primary Metering Allowances;
- Loss Factors;
- Specific Service Charges;
- MicroFIT Service Charge;
- Retail Transmission Service Rates;
- Retail Service Charges;
- Wholesale Market Service Rate, and
- Smart Metering Charge

Rural or Remote Electricity Rate Protection Charge

On December 20, 2012, the Board issued a Decision with Reasons and Rate Order (EB-2012-0453) establishing that the Rural or Remote Electricity Rate Protection (“RRRP”) used by rate regulated distributors to bill their customers shall continue to be \$0.0011 per kilowatt hour effective January 1, 2013. The Board finds that the Tariff of Rates and Charges flowing from this Partial Decision and Order shall reflect this RRRP charge for the period from January 1, 2013 to April 30, 2013.

On March 21, 2013, the Board issued a Decision with Reasons and Rate Order (EB-2013-0067) establishing that the Rural or Remote Electricity Rate Protection (“RRRP”) used by rate regulated distributors to bill their customers shall be \$0.0012 per kilowatt hour effective May 1, 2013. The draft Tariff of Rates and Charges flowing from this Decision and Order shall reflect this RRRP charge.

MicroFIT Service Charge

On September 20, 2012, the Board issued a letter advising that the default province-wide fixed monthly charge for all electricity distributors related to the microFIT Generator Service Classification was to be updated to \$5.40 per month effective with the implementation of electricity distributors’ 2013 rates applications. The Board finds that the Tariff of Rates and Charges flowing from this Partial Decision and Order shall reflect the new default microFIT service charge.

Shared Tax Savings Adjustments

In its Supplemental Report, the Board determined that a 50/50 sharing of the impact of currently known legislated tax changes, as applied to the tax level reflected in the Board-approved base rates for a distributor, is appropriate.

The calculated annual tax reduction will be allocated to customer rate classes on the basis of the Board-approved base-year distribution revenue. These amounts will be refunded to customers over a 12-month period, through a volumetric rate rider using annualized consumption by customer class underlying the Board-approved base rates. In its Supplemental Report, the Board determined that a 50/50 sharing of the impact of currently known legislated tax changes, as applied to the tax level reflected in the Board-approved base rates for a distributor, is appropriate.

THESL rebased in 2011, with a combined federal and provincial tax rate of 28.14%. THESL's application contained a completed 2012 Shared Tax Savings Workform which indicated that its tax rate was lower in 2012. THESL should make any necessary equivalent adjustments for 2013 and incorporate these adjustments into its 2013 IRM model, including indicating the amount to be shared with customers, to be refunded over a 12-month period.

Retail Transmission Service Rates ("RTSRs")

Electricity distributors are charged the Ontario Uniform Transmission Rates ("UTRs") at the wholesale level and subsequently pass these charges on to their distribution customers through the RTSRs. Variance accounts are used to capture timing differences and differences in the rate that a distributor pays for wholesale transmission service compared to the retail rate that the distributor is authorized to charge when billing its customers (i.e. variance Accounts 1584 and 1586).

On June 22, 2012 the Board issued revision 3.0 of the *Guideline G-2008-0001 - Electricity Distribution Retail Transmission Service Rates* (the "RTSR Guideline"). The RTSR Guideline outlines the information that the Board requires electricity distributors to file to adjust their RTSRs for 2013. The RTSR Guideline requires electricity distributors to adjust their RTSRs based on a comparison of historical transmission costs adjusted for the new UTR levels and the revenues generated under existing RTSRs. The objective of resetting the rates is to minimize the prospective balances in

Accounts 1584 and 1586. In order to assist electricity distributors in the calculation of the distributors' specific RTSRs, Board staff provided a filing module.

On December 20, 2012 the Board issued its Rate Order for Hydro One Transmission (EB-2012-0031) which adjusted the UTRs effective January 1, 2013, as shown in the following table:

2013 Uniform Transmission Rates

Network Service Rate	\$3.63 per kW
<u>Connection Service Rates</u>	
Line Connection Service Rate	\$0.75 per kW
Transformation Connection Service Rate	\$1.85 per kW

The Board finds that these 2013 UTRs are to be incorporated into the filing module.

THESL should provide detailed explanations of all adjustments made in both 2012 and 2013 in its Draft Rate Order.

Wholesale Market Service Rate

On March 21, 2013, the Board issued a Decision with Reasons and Rate Order (EB-2013-0067) establishing that the Wholesale Market Service rate ("WMS rate") used by rate regulated distributors to bill their customers shall be \$0.0044 per kilowatt hour effective May 1, 2013. The draft Tariff of Rates and Charges flowing from this Decision and Order shall reflect this WMS rate.

Smart Metering Charge

On March 28, 2013, the Board issued a Decision and Order (EB-2012-0100/EB-2012-0211) establishing a Smart Metering charge of \$0.788 per month for Residential and General Service < 50kW customers effective May 1, 2013. The draft Tariff of Rates and Charges flowing from this Decision and Order shall reflect this Smart Metering charge.

Issue 1.2 Is THESL's proposal that the Board approve under the IRM framework separate and successive Incremental Capital Module ("ICM") revenue requirements and corresponding distinct electricity distribution rates and rate adders for each of the 2012, 2013 and 2014 rate years appropriate?

Background

THESL applied for an incremental capital module for all three of the years that it would be under the IRM framework, that is, 2012, 2013 and 2014. The Board's Filing Requirements for Incentive Regulation Mechanism Rate Applications anticipates filing on an annual, not multi-year, basis.

THESL submitted that its application for annual IRM rate changes and ICM rate adders reflecting capital spent in each successive year is appropriate. THESL noted that it has already proposed and the Board accepted that the 2014 ICM proposed capital spending and resulting rate adders be addressed in a separate phase of the current hearing.

Board Findings

The Board notes that the 2014 component of this application, with the exception of the Bremner project, has been moved to a separate phase. Given the timing of THESL's application update in October 2012, considering both 2012 and 2013 at the same time is the only practical solution. The size and multi-year construction schedule of the Bremner project is another factor that makes it reasonable to consider the entirety of the projects at this time. However, the Board expects that future IRM filings will only be for one year, unless there are appropriate circumstances that justify a multi-year approach to IRM.

Issue 1.3 Is THESL's proposal that the Board recognize in rates THESL's approved 2011 year-end rate base appropriate?

Background

As part of this application, THESL requested an adjustment to account for the fact that only half the capital additions in 2011 are included in the rate base which underpins its 2011 rates. In successive cost of service rate years, the rates are adjusted each year to recognize the previous year's capital additions that have not yet been included in rate base. THESL seeks a similar adjustment for the start of the IRM period.

THESL argued that as the 2011 rates were set on the basis of average rate base and since the IRM/PCI adjustment does not by itself recognize material increases over

approved rate base in place by the end of the rebasing year, the 2012 rates are deficient as they reflect an unadjusted rate base.

Intervenors and Board staff all argued that THESL's proposal is contrary to the Board's policy. Board staff submitted that any proposed changes to the policy should be the subject of a generic proceeding.

Board Findings

It is important to recognize that this is an application under the Board's Incentive Regulation guidelines. The policies which underpin these guidelines specify the base upon which rates are to be adjusted in future years and allow for an incremental capital module, the criteria for which will be discussed elsewhere in this Decision.

The Board's policies with respect to the going in rate base and associated base rates apply to all distributors, unless a demonstrable need for deviation from the policy has been established. The Board agrees with a number of intervenors who have argued that the Board's policies with respect to the averaging of rate base and the use of the half-year rule for depreciation are clear, and have been articulated in a number of recent decisions, particularly those of Enersource and PowerStream¹.

The Board has recently confirmed that going into incentive regulation rates are set based on a cost of service review, and that rates and costs are then decoupled² for the term of the IRM. The concept of adjusting rate base is not applicable to applications made under IRM.

The Board does not accept that there is a "loss" to the distributor with the application of the half-year rule or that these policies are wrong. The Board is not convinced by THESL's arguments for a departure from policy which uses the average rate-base in the rebasing year (in this case, 2011). THESL has put forward the use of 2011 year-end rate base without justifying why this is required – not why THESL wants this policy change, but why a deviation from the Board approved policy is required by THESL. As stated by the Board in the recent decisions referred to above, departures from policy are

¹ EB-2012-0033, *Decision and Order Enersource Hydro Mississauga Inc.*, December 13, 2012 and EB-2012-0161 *Decision and Order PowerStream Inc.* December 21, 2012.

² *Report of the Board – Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*, October 18, 2012 pages 10 – 11.

only appropriate if the circumstances justify such a departure. Aside from increasing rate base, THESL did not substantiate why this increase is necessary from its own financial resource management perspective or how it might be of benefit to ratepayers, or provide any other reason to stray from the policy.

THESL's argument is that it will not earn a return on all rate base additions made during 2011. But a fundamental tenet of incentive regulation is that base year rates are adjusted by a simple mechanistic formula that takes into account inflation, productivity, and a stretch factor. In order to maintain, or even exceed, its allowed rate of return, a distributor is incented to implement efficiency improvements. Rate base is not adjusted per se, nor are the cost of capital, depreciation, PILs, or other elements of the revenue requirement. Rather, these components are subject to the application of the price cap index adjustment during the IRM plan term. This is not an unintended consequence of incentive regulation – it is at the core of providing incentives to distributors to find efficiencies, minimize costs, and generate growth while being allowed the opportunity to earn, and potentially exceed, the allowed rate of return on equity.

The Board also notes that under the IRM framework, THESL will continue to earn a return on rate base and depreciation on assets that will be retired during the IRM period. THESL provided insufficient evidence that this was taken into account and to what extent such factors would offset the relief sought for the 2011 year-end rate base. The Board is therefore not persuaded that a change in Board policy to adjust base rates is required.

Issue 1.4 What is the consequence of this application on any future application by THESL for rates for 2013 and/or 2014?

Background

THESL's initial application was for rates for 2012, 2013 and 2014. Subsequently THESL requested a bifurcation of the proceeding, allowing for 2014 rates to be dealt with in a separate phase (Phase 2), and that these would also be based on the IRM framework. Based on this understanding, Board staff made no submissions on this issue. However, Board staff submitted that on a going-forward basis, applicants requesting the type of multi-year ICM relief sought by THESL in this application should do so on the basis of the Custom IR approach, as outlined in the *Report of the Board Renewed Regulatory Framework for Electricity Distributors: A Performance-Based*

Approach. (“RRFE framework”) issued on October 18, 2012, which has been specifically designed for the type of capital program requirements faced by THESL.

Board Findings

As the Board has approved THESL’s request to hear the 2014 application as a separate phase of this proceeding, there is no decision required of the Board in respect of 2014 at this time, with the exception of matters related to the Bremner transformer station. With respect to rates for 2013, the Board’s decision will result in new rate riders for the approved projects, commencing May 1, 2013 and these will be reflected in the Tariff Sheets and Schedules, again with the exception of the Bremner transformer station.

Issue 2.1 Is THESL’s application of the ICM criteria appropriate?

Background

This application raises a number of issues concerning the application of the ICM criteria.

- Is recovery based on a “spend” or an “in-service” approach
- The Used or Useful rule
- Should Pre 2012 CWIP be accounted for
- The application of the threshold and deadband
- The criteria used by THESL for determining that work is “non-discretionary”
- Is work characterized as “business as usual” eligible for ICM
- Does the work need to be unusual and/or unanticipated?

Spend versus In-service

Background

THESL requested recovery under the ICM model of \$283 million of capital expenditures in 2012 and \$579 million in 2013. This was submitted on a “spend basis”. On an “in-service basis” the request for 2012 was \$116 million and for 2013 was \$424 million. The difference between these models is explained below.

The “spend approach” used by THESL assumes that recovery is based on THESL’s expenditures in each year on the approved work program. This approach does not

include any adjustment to end of 2011 rate base to account for the application of the half year rule in 2011, nor does it include any provision to account for pre-2012 CWIP. If the entire work program (excluding Bremner) is approved this approach will require recovery \$90.9 million through rate riders. Additional rate riders will be required for Bremner – these are discussed later in this decision.

In support of its position that this is the appropriate approach, THESL pointed out that the Board's guidelines and workforms are laid out on that basis.

The alternative approach, as described by Board staff and supported by the intervenors, is to allow recovery at the time the assets are "in-service". This approach is based on recovery of only the in-service portion of 2012 and 2013 capital expenditures related to the approved work program.

As this phase of the application applies to 2012 and 2013, it includes recovery of 2012 capital expenditures that come into service in 2013, as well as in-service 2012 and 2013 assets, but does not include the portion of 2013 spending that does not come into service until 2014. These assets would be dealt with in the next phase of this proceeding which will consider the 2014 portion of the work program.

Board Findings

The Board agrees with Board staff and intervenors that the approach contained in THESL's application is not consistent with the Board's prior ICM Decisions and would represent substantial changes in the Board's approach to the ICM. The Board notes that the issue was not raised in prior ICM decisions because no distributor sought ICM treatment until the year that the project was brought into service, even though the capital spending was over a number of years.³ Examples include Guelph Hydro, where a 2011 ICM was approved for a transformer with a scheduled in service date of October 2011, but involved three years of capital spending. Another similar example is the ICM for Oakville Hydro's transformer station.

Board staff argued if an alternative to the "in-service" approach is to be considered by the Board, it should be undertaken in some form of generic proceeding.

³ Oakville Hydro, EB-2010-0104, Guelph Hydro, EB-2010-0130

THESL argued that an implication of the in-service approach is that the initial phase of this proceeding would need to address the 2014 impacts of 2013 spending (or indeed 2012 spending) that comes into service in 2014, due to the inter-year implications of using that approach.

The Board agrees with THESL that the capital spend approach has the benefit of being relatively straightforward to apply and that it eliminates the need to track the capital spending beyond the ICM year, or to examine the spending from previous years that comes into service in the ICM year. However, the Board notes that there are many aspects of THESL's spending that involve tracking, and reconciliation from one year to the next. Indeed the ICM requires that actual spending on each project be reconciled after the fact with the approved amounts. In this case, given the multiple projects spanning several years, the Board does not find that ease of application of one aspect of accounting for the work favours one approach over another.

If the Board approves the "in-service" approach, THESL requested a 2014 rider for the portion of the 2012/2013 work program that comes into service in 2014 since to the extent that the phase 1 work program is approved by the Board, timely funding for that approved work is required, and is necessary in order for THESL to maintain its financial viability.

The Board notes that the level of funding riders required for the spend approach is higher than for the in-service approach. The impact of the ICM on rates is significant, and the Board finds that the preferable approach in this case is to use the in-service approach. The Board notes that this reduces the rate impact to the extent possible. The Board also finds that this is consistent with the usual approach of not recognizing capital additions in rate base until they are completed. For greater clarity, this means that at this time no riders are approved for assets which will not come in to service until 2014, except as noted below.

Used or Useful

Board Findings

The Board notes that in putting forward the "in-service" approach, the parties refer to capital additions as qualifying under the "used and useful" rule. The Board agrees with THESL that the traditional and long established test in Ontario has been the "used or

useful” rule. Therefore, the “in-service” approach should more properly be described as the “used or useful” approach. The Board does not anticipate that there will be any material difference for most of the projects, as they are likely to come into service at the same time as they become “useful”. However, in some cases, it may be that THESL’s work has been completed on a project but it is not yet “in service” as work which is the responsibility of other parties has not been completed. In these circumstances, the Board finds that THESL may consider the work to be completed and hence “useful”, even if it is not yet being “used”.

References to “in-service” should be read to mean that the necessary work has been completed for it to be put into service.

Pre 2012 CWIP

Background

THESL argued that if the Board approved an “in-service” model, pre 2012 CWIP should be recoverable. This position was supported by a number of the intervenors: Energy Probe’s position is that “carry-forward of CWIP is part of this approach to ICM”, and SEC argued that in many of the Board’s ICM decisions “the ICM included capital spending in prior years that was brought into service in the ICM year”.

Others, such as AMPCO, did not disagree in principle, but argued that only the elements of CWIP that relate to non-discretionary projects should be allowed, and that THESL had not led evidence on this issue.

THESL filed its application on a “spend” basis, which did not request the recognition of pre 2012 CWIP. During the proceeding, THESL provided the amounts of Pre-2012 CWIP which would be brought forward as \$67 million in 2012, \$45.5 million in 2013 and \$32.3 million in 2014.

Board Findings

Having approved the “in service” model which means some expenditures will not be recoverable until after the year in which they are incurred, the Board finds that it is also appropriate to include pre 2012 CWIP in the calculation of the amounts eligible for incremental capital funding for each of 2012 and 2013 . The pre 2012 CWIP amounts

will be used in determining the threshold above which recovery of in-service assets for 2012 and 2013 will be allowed. Rate riders will not be approved for the purpose of recovering the cost of projects that gave rise to pre 2012 CWIP, as these projects have not been reviewed as appropriate for ICM. For this purpose the Board will accept the amounts provided by THESL.

Threshold and Deadband

Background

The Board's Supplemental Report provides that the ICM for which the Board may provide rate relief is the new capital sought in excess of the materiality threshold. If the application is approved, a rate rider is established to reflect an amount sufficient to accommodate the portion of the approved incremental spending that exceeds the threshold amount plus a 20% "deadband" to reflect the amount the utilities should be able to finance without recourse to an ICM.

THESL's threshold for 2012 is \$173 million. THESL argued that for the purpose of calculating rate adders, the threshold plus deadband is a filtering tool to determine eligibility for ICM funding. THESL argued that once it is found to be eligible, the deadband has no application and should not be subtracted from the gross ICM expenditures.

THESL also argued that even if the Board determines that funding for ICM projects should be granted on an in-service additions basis, the calculation of eligibility for funding by application of the materiality threshold should be done on a capital spending basis.

Board Findings

The Board finds that the wording of the Supplemental Report is clear – that only eligible expenditures in excess of the materiality threshold are eligible for ICM⁴, and that the purpose of the deadband is to reduce the amount of funding available by a further 20%.

⁴ Formula shown on page 33 of the Supplemental Report of the Board.

The Board finds that the 20% threshold adjustment continues to be appropriate, given the depreciation expense and other parameters that are not adjusted during IRM.

Non-discretionary criteria

Background

THESL approached the “need” criterion for an ICM as a determination as to whether a project was non-discretionary in the IRM period, based on the following factors.

THESL’s criteria for making this determination is whether each project is required for one or more of the following reasons:

- (1) Statute, code, provincial policy, or equivalent external requirement;
- (2) Considerations of safety for the public and for workers operating in, on, or around equipment;
- (3) Existing or imminent reliability degradations;
- (4) Existing or imminent capacity shortages;
- (5) A material increase in cost (beyond the time value of money), if the project is necessary but undertaken at a later time.

THESL used the following definition of prudence for each project

- the achievement of or approach to the lowest reasonable life cycle cost consistent with all other constraints, including, for example, safety of equipment,
- compliance with standards including accepted standards of good utility practice,
- public acceptability, and
- the reliability and adequacy of the distribution system.

Throughout its application and through oral testimony, THESL referred to the criteria of materiality, non-discretionary need for the expenditures and prudence in order for projects to be characterized as being eligible for an incremental capital module. The appropriateness of these criteria as applied to each of THESL’s proposed projects will be discussed further in this decision under section 2.2.

Board Findings

The Board accepts THESL's criteria for determining if a project is non-discretionary. The Board also accepts that as a practical matter cost-effectiveness means that the prudent and cost-effective solution for a distributor, when carrying out non-discretionary work, is to complete other important associated work. The Board therefore does not necessarily expect each job to be non-discretionary, if it is clearly associated with work that is non-discretionary. The Board agrees with THESL that doing only the bare minimum of work may be more expensive and counterproductive in the long run. The Board notes that the guidelines in the Reports contemplate the most cost effective solution, which may not be the least expensive in the short term.

The Board also accepts THESL's position that one segment of work may have more than one driver. So long as at least one driver is identified, the fact that there may be more than one does not detract from the non-discretionary nature of the work, and in fact may simply give further weight to it.

Business as Usual

Background

Several intervenors raised an issue as to whether a capital project should be found to be ineligible for ICM if it is a "business-as-usual" project rather than a new, incremental, extraordinary and non-discretionary project.

They argued that the Board was clear in its 3rd Generation IRM Supplemental Report, that "business as usual" spending is ineligible.

SEC argued that for work being undertaken to address safety concerns, the safety concern must be material, the driver must be something the applicant would not have been aware of at the time of its last cost-of-service application, and the safety concern must need to be addressed within the IRM period. SEC argued that if these conditions are not met, then it is "business as usual" for an electricity distributor and should be included in the capital budget funded through the IRM framework.

Board Findings

The Board finds that that on a case by case basis, some projects that might be characterized as “business as usual” may be eligible for ICM. The criteria in the Reports do not require that capital expenditures are on an “emergency or urgency basis” but rather, that the work must be undertaken and that the existing capital in the rebasing year is insufficient to do so. The Board rejects the notion that projects that might be “routine” or “business as usual,” are ineligible categorically for an incremental capital module.

Unusual and/or unanticipated

Background

SEC argued that a distributor should not be able to apply for funding for an ICM project that is ostensibly to deal with a safety issue if the risk is not new, and funding could have been requested at its last cost-of-service application. SEC argued that otherwise, utilities could game the system, holding back safety-related projects until an IRM year, when they could be repackaged as an incremental rate increase through the ICM.

VECC argued that without the requirement that an ICM project be ‘unusual and/or unanticipated’ the integrity of the incentive regulation model could be compromised.

Board Findings

The Board’s Supplemental report (p. 31) does refer to unusual circumstances but does not refer to unanticipated circumstances. The Board finds that the aging infrastructure and the associated capital needs of the magnitude faced by THESL can be considered “unusual” in the broader context of Ontario utilities. The Board is not inclined to add additional criteria such as those suggested by SEC and VECC.

Minor projects

Board Findings

The Board notes that most previous ICM applications approved by the Board have been for one or a few discrete large projects. While the Board will not adopt the suggestion of

some parties that each project put forward by THESL should meet the overall materiality threshold, the Board does not expect that projects that are minor expenditures in comparison to the overall budget should be considered eligible for ICM treatment. A certain degree of project expenditure over and above the threshold calculation is expected to be absorbed within the total capital budget.

Issue 2.2 Has THESL provided sufficient evidence including consultant reports, business cases and consideration of alternatives, for the proposed capital projects to adequately justify them?

Background

THESL's prefiled evidence included detailed business cases for each of the projects. At the oral component of the hearing, THESL's witnesses explained the reasons for including each of the projects in the ICM. In general, the THESL witnesses gave detailed and forthright explanations of the decision making around each of the projects.

Some of the projects are further divided into segments, which in turn include a number of "jobs" or discrete line items of work. THESL's witnesses explained that in some cases the jobs included in a segment might not all be non-discretionary, but that they were associated with other jobs in the segment which are. For example, replacing a transformer which is approaching end of life may be considered discretionary, but if the multi-tap replacement must be undertaken (non-discretionary), it is prudent to undertake both at the same time.

THESL's witnesses were cross-examined by the various intervenors, but no other party called witnesses to give evidence, except in the second part of the proceeding dealing specifically with the Bremner Transformer Station project. That evidence is discussed in the context of that project.

The Feeder Investment Model

One of the tools used by THESL in its analysis is the Feeder Investment Model ("FIM"). It was described by THESL as a risk based model used to identify the economically optimal replacement time for aging assets. The FIM considers the costs of replacing assets and includes the consequences of asset failure for both the utility and customers. The FIM compares the financial consequences of failure against the benefits of

delaying the capital spending associated with replacement by extending service life as long as possible. THESL has been using and refining this model for the last few years.

THESL stated that the FIM does not determine the need to replace assets and that THESL has not used it for this purpose, but the FIM shows the cost-effectiveness of THESL's proposed projects and the prudence of undertaking them.

THESL's definition of prudence for each project is:

- the achievement of or approach to the lowest reasonable life cycle cost consistent with all other constraints, including, for example, safety of equipment,
- compliance with standards including accepted standards of good utility practice,
- public acceptability, and
- the reliability and adequacy of the distribution system.

Board staff submitted that the Board should accept the theoretical basis for the FIM. However, Board staff argued that the results depend on the input assumptions, and that until certain enhancements are made to the FIM, the Board should put limited weight on the results where they are used to show that completing any one segment in the IRM period is more cost-effective than waiting until 2015.

AMPCO agreed that THESL had provided some evidence of the prudence of the chosen alternative relative to the alternatives (to the extent they are available), but expressed concern with the use of the FIM for capital projects due to the possible introduction of overstated avoided risk and ownership costs for specific project options.

SEC agreed with THESL that the FIM is a tool used to assess 'prudence' not 'need.' SEC argued that while it is a concept that should be encouraged by the Board, it is not sufficiently developed to be a useful indicator of prudence.

VECC submitted that analysis such as that represented by the FIM is the appropriate way to approach the assessment of cost effectiveness and associated prudence of proposed projects and supports THESL's use of such approaches in this context.

VECC submitted that it is important, when assessing the prudence of a proposed project, to look at the sensitivity of the FIM results to reasonable changes in the input assumptions and, even then, to not overly rely on the analysis.

THESL argued that the specific criticisms of the FIM largely fall into two major categories, which are: (1) the customer interruption costs used in the FIM and (2) the way the FIM calculates the amount of load that would be interrupted in an asset failure. THESL submitted that none of these criticisms, separately or together raise any doubt that the FIM is a valuable tool as THESL has used it. THESL concluded that the FIM clearly supports the cost-effectiveness of the projects and segments that it has proposed.

Board Findings

The Board finds that the FIM is a useful tool to compare the financial consequences of failure of aging assets to the benefits of delaying the work and to assess capital spending associated with replacement by extending service life as long as possible.

As conceded by THESL's witnesses, there are certain generalizations used in developing the inputs into the FIM. These include the type of customers in a particular area, and the impact that outages may have on them. The Board finds that these limitations do not outweigh the usefulness of this tool, and commends THESL for developing it. While the Board expects that it will continue to be refined, the Board notes that the level of detail sought by some of the intervenors may only be available at significant effort or cost.

Capital Program Segments

General Comments

While CCC did not take a position on the appropriateness of the projects, it urged the Board to carefully consider the submissions of Board staff, Energy Probe, AMPCO and VECC from a technical perspective, in assessing how it applies the criteria to determine an appropriate ICM for 2013. CCC submitted that those analyses clearly demonstrate that THESL's full request for 2013 should not be approved, as many of the segments and jobs proposed do not meet the ICM criteria.

Segment-by-Segment Assessment

The Board finds that THESL has provided sufficient evidence with respect to each segment for a determination to be made with respect to eligibility for an ICM. Each segment is discussed in the following sections.

The Board has taken all numbers in the proposed spending summaries in this section from THESL's "In-Service Summary of Capital Program" as updated on December 21, 2012 in Tab 8/Schedule 5-1/Appendix A.

B1 Underground Infrastructure

Background

This segment includes 27 discrete jobs to replace direct buried cable with cable in concrete-encased ducts, and air-insulated pad-mounted switchgear units with SF₆-insulated pad-mounted switchgear units in 2012 and 2013

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
28.75	12.74	58.94	51.88

Replacement of direct buried cable

This work involves replacing direct buried cable which has deteriorated due to age and exposure to the environment. THESL's evidence is that this contributes to a large number of outages, and can be a safety concern. While no party challenged THESL's assessment of the need to replace this cable, Energy Probe cross-examined THESL's witnesses extensively on possible alternatives to THESL's plan to replace this cable with concrete encased ducts. THESL's uncontradicted evidence was that the suggested alternatives were unsuitable in the situations encountered by THESL and that its approach was the most cost effective over the long term.

Energy Probe argued that a reduction of \$10 million should be made to reflect the fact that THESL's proposal for concrete encased duct banks is not justified from a reliability standpoint and that alternatives such as direct boring and flexible conduit or direct burying are acceptable alternatives and much more cost effective

THESL argued that Energy Probe's position should be rejected by the Board since initial installation cost is not the only cost and THESL's evidence had presented substantial information on the repair cost advantages for cable in concrete encased ducts which had been ignored by Energy Probe. THESL also stated that its evidence had clearly

explained that concrete encased ducts offer the longest life and greatest reliability and facilitate future repair and replacement.

THESL also urged the Board to reject the arguments of parties questioning the pace of replacing underground direct buried cable. THESL stated that even though it had been working diligently since 2007 to reduce the amount of direct buried cable in its system, the number of interruptions per kilometre of direct buried cable has increased over the past five years which demonstrates the need to maintain focus and continue committing resources to replacing direct buried cable.

Transformers

THESL also proposed that, where cost-effective, non-standard submersible transformers will be replaced with new standard submersible transformers. THESL noted that there were reliability issues related to submersible transformers because of known issues with multi-taps. THESL stated that in 2010 multi-taps were the second largest contributor to reliability issues and over 600 units have since been replaced.

Board staff submitted that THESL's position was overly pessimistic as to the number of transformers that will fail in the short term, as more than 98% of these transformers are shown as being in Very Good or Good Condition. Board staff argued that the problems with these transformers could be addressed by replacing only the multi-taps except in circumstances where the condition of the transformer is Poor or Very Poor.

Board staff submitted that replacing only the multi-taps where the transformer condition is Good or Very Good would result in a reduction in cost in the 2013 in-service additions by \$3.92 million to \$48.2 million. Board staff also argued that given the generally good condition of the transformers, the remaining \$48.2 million expenditure could be paced over two years, reducing the recoverable 2013 amount to \$24.1 million.

THESL urged the Board to reject Board staff's arguments as they were based on the Asset Condition Assessment ("ACA"). THESL argued that from this Board staff appeared to have concluded that the specific transformers THESL proposes to replace, because they are at or approaching their end of life do not in fact require replacement. THESL argued that this conclusion did not follow and that it ignored the updated information on the asset condition of submersible transformers which shows their condition to be significantly worse than disclosed in the ACA.

THESL submitted that while it is theoretically possible to separate the multi-tap and the transformer and replace one without replacing the other as Board staff and others had suggested, it would be imprudent to do so, as it would be reasonable to assume that the multi-tap was installed at the same time as the transformer. THESL submitted that it is more cost-effective overall to replace them at the same time, as this would cost about \$3,700 per unit less than replacing them individually. THESL argued that making cost-effective decisions when deciding to replace equipment is one of the hallmarks of prudence.

BOMA argued for a reduction of 50% in the 2013 expenditures to produce a savings of \$29.5 million. BOMA stated that in its view, THESL is replacing the direct buried XLPE cable over too aggressive a timetable.

SEC submitted that a significant amount of this spending is discretionary and that the evidence does not show that THESL has met the ICM requirement for “need”.

SEC argued that if the Board finds that some portion of the Underground infrastructure segment is eligible for an ICM, significant reductions should be made of at least 50% in the proposed in-service capital for both 2012 and 2013. SEC argued that an ICM for this segment of no more than \$7.81 million for 2012 and \$33.47 million for 2013 should be granted.

Board Findings

The Board accepts THESL’s evidence that the most effective way to replace the direct buried cable is with concrete encased ducts, and that the project is prudent and non-discretionary. There was no credible evidence to support the alternatives or reductions sought by the intervenors. Having found that the work is required and prudent, any reduction to the program is arbitrary and not supported by any evidence.

The Board also finds that THESL’s plan to replace the transformers and switches at the same time is appropriate, given the age of the transformers and the overall higher costs if the work is done in two phases.

The Board approves ICMs for this project as requested, subject to the Board’s findings under Issue 2.1.

B2 Paper Insulated Lead Covered (“PILC”) Cable – Piece Outs and Leakers**Background**

This segment includes ten discrete jobs to repair and replace Paper Insulated Lead Covered (PILC) cable in 2012 and 2013.

THESL’s proposed spending in this segment is summarized below:

\$ millions

2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
0.08	0.04	5.42	3.35

SEC was the only party specifically opposing THESL’s proposed spending in this category, submitting that while replacing PILC cable is necessary, it is not a new project, but a routine maintenance issue and thus is “business as usual”. SEC accordingly submitted that the Board should not grant an ICM for this segment.

THESL argued that this segment comprises work that clearly needs to be addressed and relates to a safety issue. THESL’s evidence is that leaking PILC cables are defective presenting potential safety hazards to workers and also giving rise to environmental concerns and remediation requirements. THESL submitted that this important non-discretionary work is eligible and appropriate for ICM funding.

Board Findings

The Board finds that this work is not routine maintenance work, but is capital spending. It is non-discretionary as it relates to a safety issue and needs to be undertaken during the IRM period. It is therefore eligible for ICM treatment. The proposed ICM modules are approved as filed by THESL subject to the Board’s findings under Issue 2.1.

B3 Handwell Replacement

THESL has approximately 11,700 handwells on its system. THESL began replacing its handwells following the Level III emergency in 2009 and by the end of 2011, had replaced almost 5,600 existing handwells with new, non-conducting composite handwells. This segment involves the replacement of THESL’s remaining handwells not addressed in prior years.

Background

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
13.65	6.05	16.65	17.73

BOMA stated that it would support a more limited program at this time which it presumes would cost no more than 33% of the total.

THESL noted that BOMA's suggestion was not raised during the hearing and no evidence was presented to support the amount of the alleged cost savings or the electrical sufficiency of the proposed alternative approach. THESL submitted that this would not save money, but would merely prolong the program and also prolong the potential public safety risk.

Energy Probe submitted that funding for this segment should be denied by the Board until THESL provides data that can substantiate how many handwells have a hazardous voltage on them. Energy Probe further submitted that should the Board find that this segment does qualify for ICM relief, the Board should reduce the funding by 50%, or \$8.9 million, to recognize that the majority of contact voltage hits do not represent a public or employee safety hazard.

SEC made a similar argument to Energy Probe on the premise that only half the handwells have a voltage above 4.5v, the level that presents a risk.

THESL suggested that these submissions confuse the operation of its mobile scanning program with its handwell replacement program, which is targeted at addressing deterioration of the demarcation point to the streetlight system, the handwell, conductor and connectors.

THESL's position is that it must continue to replace the remaining handwells over the next three years. THESL argued that using a reactive approach as suggested by the intervenors would increase the risks to public safety, and could be more expensive due to requirements for after-hours work and delays in permitting.

Board Findings

The Board accepts THESL's evidence on the need and non-discretionary criterion for this project, and finds that its approach to the work is prudent. The Board notes that there was little, if any, evidence to support the alternative approaches suggested by the intervenors. The Board approves ICMs for this project as requested, subject to the Board's findings under Issue 2.1.

B4 Overhead Infrastructure

THESL's overhead plant covers approximately 53 percent of the total distribution system within the City of Toronto. This segment deals with the need to address system-wide issues associated with overhead infrastructure and proposes jobs to replace aged, deteriorated and non-standard equipment.

Background

THESL's proposed spending in this segment is summarized below:

\$ millions

2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
9.07	4.02	55.88	39.06

BOMA argued that this segment should be reduced by \$15 M as the pole replacement and ancillary asset programs are linked but they are discretionary to some degree, in particular the pole replacement component.

Energy Probe argued that the only quantitative evidence for this project shows that only 556 of the 2,373 poles scheduled for replacement in 2013 actually meet the program criteria of being in poor or very poor condition. It also questioned the urgency of the program and its non-discretionary nature.

SEC agreed with Energy Probe, and also agreed that the 2012 budget should be reduced by \$1.6 million.

THESL argued that the adoption of Energy Probe's proposal would not only effectively underfund this necessary project, but would represent an imprudent and wasteful approach to this work, which would be fundamentally inconsistent with the interests of ratepayers.

Board Findings

The Board accepts THESL's evidence on the need for this project at this time. The Board notes that the evidence is that THESL does not test every pole, but assumes that in an area where the poles are the same age, they are likely to fail at similar times. The Board also accepts THESL's evidence that the most cost effective approach is to replace all the poles at the same time in an area, as this minimizes cost and disruption compared to doing it on a pole by pole basis as they fail. The Board approves ICMs for this project as requested, subject to the Board's findings under Issue 2.1.

B5 Box Construction

Background

Box construction refers to a type of legacy 4kV overhead construction that was used in the former City of Toronto and still exists in some areas of the city. THESL stated that there are a number of reliability, safety and load capacity issues associated with box construction which it plans to address through a proactive program to convert these feeders to standard 13.8kV overhead construction. THESL further stated that there are specific issues that necessitate the conversion of box construction 4kV feeders supplied from specified stations

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
0.58	0.26	23.04	14.34

Board staff submitted that not all of the municipal stations proposed for replacement by THESL needed to be replaced and that the proposed 2013 expenditures should be reduced by \$5.5 million. Energy Probe, SEC and VECC agreed with Board staff in substance, although they calculated the reductions slightly differently.

BOMA submitted that a reduction of one-third or \$8 million could be made in this segment as this is part of a longer term plan that can be extended.

THESL argued that Board staff's argument was inconsistent with the evidence as it was premised on the understanding that the primary purpose of the work in this segment is to decommission eight 4kV Municipal Stations (MS). THESL's position is that its

unchallenged evidence is that the proposed box construction conversion work is needed primarily to improve worker safety; address reliability issues due to the age and condition of the assets; provide increased capacity; decrease outage restoration times; and reduce line losses.

THESL submitted that Board staff's argument focused on an inappropriate criterion - whether THESL has established the need to decommission the eight MS associated with this segment, and should not be accepted.

THESL argued that as no party provided any other reason to disallow funding, and as THESL has provided compelling evidence of the safety and reliability needs to be addressed by this project, its full request should be approved.

Board Findings

The Board accepts THESL's evidence of the need to undertake the proposed work at this time and that it is non-discretionary. The Board is satisfied that THESL has demonstrated that the work is primarily required for safety and reliability, and is not merely an adjunct to the decommissioning of the MS stations. The Board approves ICM funding, subject to the Board's findings under Issue 2.1.

B6 Rear Lot Construction

Background

Rear lot overhead service was implemented in certain Toronto neighbourhoods in the 1950s and 1960s. THESL's evidence is that the equipment providing this service is now past its useful life and difficult to access, repair or replace. The purpose of the proposed spending in this segment is to remove rear lot service in certain areas that currently pose safety risks, greater reliability concerns and higher repair costs and replace it with standard underground service constructed to current specifications.

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
16.36	7.25	29.43	27.02

BOMA submitted that the back lot replacement program is more discretionary than many of the other programs such as underground and overhead infrastructure programs and should not be proceeded with at this time, but offered no evidence or justification for this position.

Energy Probe submitted that THESL had not demonstrated that rear lot conversion is non-discretionary and therefore funding through the ICM should be denied. Energy Probe further submitted that if the Board was to find that rear lot work does qualify for ICM funding, it should approve only an amount sufficient to rebuild the proposed rear lot lines with new rear lot lines incorporating tree-proof conductor and animal guards. On this basis, Energy Probe recommended an in service additions reduction of \$22.5 million.

SEC and VECC submitted that the Board should not grant an ICM for this segment since it does not meet the criteria of need and prudence.

Board Findings

The Board accepts THESL's evidence that the replacement of rear lot overhead infrastructure as proposed by THESL is work that needs to be undertaken at this time, and that front lot service is the only viable alternative. The evidence on the hazards, unsafe working conditions and difficulties with timely access to repair outages was compelling. The Board finds that the only appropriate way to replace this infrastructure is to remove it from rear lots. The Board approves ICM funding for this project as requested, subject to the Board's findings under Issue 2.1.

B7 Polymer SMD-20 Switches

Background

THESL has determined that the SMD-20 switches installed during the period of 2006 and 2011 are defective. THESL's evidence is that it has identified 5,226 defective SMD-20 switches installed in 2,553 locations that require replacement. This segment involves replacing all of them with "new design" SMD-20 switches.

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
0	0	1.53	0.93

Energy Probe stated that it had no objections to the projects proposed for this segment, but noted that the amount of funding required is small and should be within THESL's normal capital funding abilities during an IRM period. Energy Probe therefore argued that this segment should not qualify for ICM funding.

THESL argued that Energy Probe's submission is entirely inconsistent with any prior guideline or Decision concerning the IRM and should be rejected. THESL argued that given its extensive evidence regarding the critical issues concerning SMD-20s, the funding for this project segment should be approved in its entirety.

Board Findings

The Board accepts the need for THESL to undertake this work but finds that the amount requested is not significant in the context of THESL's overall capital budget. THESL should be able to fund this project through its normal capital budget during the IRM period, and will not be permitted additional recovery for this project.

B8 SCADA-Mate R1 Switches

Background

SCADA-Mate R1 switches have been identified as a safety risk to THESL's crews. In two recorded incidents in June 2008 and three in April 2011, these switches unexpectedly operated when in the "closed position" during routine maintenance activities. The failure of the switches was caused by moisture buildup inside the motor operator compartment, which corroded internal components critical to the switch's operating mechanism. THESL proposes replacing existing SCADA-Mate R1 switches that are located in heavily contaminated areas such as highways and arterial roads due to their increased probability of failure.

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
0	0	1.43	0.87

THESL submitted that as no party objected to its proposals, and the extensive evidence on the critical safety issues, its request for funding of this segment should be approved in its entirety.

Board Findings

The Board accepts the need for THESL to undertake this work but finds that the amount requested is not significant in the context of THESL's overall capital budget. THESL should be able to fund this project through its normal capital budget during the IRM period.

B9 Network Vault & Roofs

Background

THESL has 1,064 network vaults in the downtown core supplying the network system. THESL's evidence is that while the majority of these vaults have reached or are quickly approaching their expected end-of-life (60% will have reached end-of-life within the next ten years or less), a majority (81%) of network vault roofs are already well past the vault roof expected life of 25 years. Under this segment, THESL proposes to eliminate immediate structural vault deficiencies of 26 high risk vaults in 2012-2013, three through decommissioning, six through roof rebuilding and 17 through complete vault rebuilds.

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
2.84	1.26	18.76	13.00

SEC expressed concern with the proposed pace of spending. SEC agreed that while many of the very poor condition vaults and roofs should be replaced, it may not be necessary to replace some of the poor condition vaults and roofs in 2012 and 2013.

SEC suggested that this may be one of the areas in which THESL could reduce its overall capital additions budget through prioritization and pacing.

THESL argued that the need and non-discretionary nature of this project segment is well documented in the evidence and that the proposed vault and roof replacement for 2012-13 addresses only 2.5% of the vaults in THESL's system.

THESL argued that the scope of this proposed project segment is modest and given the long time frames required for the refurbishing of a vault and the urgent need to immediately address critical safety and reliability issues, the requested funding for this segment should be approved in its entirety.

Board Findings

The Board accepts THESL's evidence of the need for this work at this time. Given the number of vaults, the safety issues and the time involved in refurbishing them, the Board agrees with THESL that slowing the pace of the work may lead to more problems in the future. The Board approves ICM funding for this project as requested, subject to the Board's findings under Issue 2.1.

B10 Fibertop Network Units

Background

The purpose of this segment is to mitigate the risk caused by existing Fibertop Network Units, by replacing these units with Submersible Network Units. The Fibertop Network Units are currently the oldest network protectors used on THESL's system. The assets selected for replacement have been identified as possessing the highest probability of failure, based on inspection of all THESL units. Failure of some of these units has resulted in fires on sidewalks and front laws. Eliminating this serious public safety risk is therefore a priority.

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
1.48	0.65	7.71	5.51

AMPCO and SEC argued that this work does not qualify as non-discretionary.

Board Findings

The Board accepts THESL's evidence of the public safety risks posed by the failure of these units and the need to undertake this project at this time. The Board approves the ICM funding as requested, subject to the Board's findings under Issue 2.1.

B11 Automatic Transfer Switches (ATS) & Reverse Power Breakers (RPB)**Background**

ATS automatically switch a customer to a designated standby feeder in the event the normal primary feeder fails. RPB automatically open primary feeder supplies to customers in the event of feeder outages to prevent dangerous backfeed conditions. THESL's evidence is that both ATS and RPB assets have degraded rapidly in 2010 and 2011 and that approximately 30 ATS assets will need to be replaced over the next three years and six RPB assets require immediate replacement. THESL proposes to replace these assets with Stand Alone Network Protectors or Standard Network Equipment.

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
0	0	3.26	1.99

Energy Probe had no objections to the projects proposed for this segment, but argued that as the amount of funding required is small it should be within THESL's normal capital funding abilities during an IRM period.

THESL submitted that Energy Probe's argument is entirely inconsistent with any prior guideline or Decision concerning the IRM and should be rejected. THESL argued that given its extensive evidence regarding the critical issues concerning ATS and RPB switches, as well as the support of or absence of opposition to from intervening parties, the funding for this project segment should be approved in its entirety.

Board Findings

The Board accepts the need for this work to be undertaken at this time. The Board finds that the amount requested is sufficient to qualify for an ICM. The Board approves the ICM funding as requested, subject to the Board's findings under Issue 2.1.

B12 Stations Power Transformers**Background**

This segment consists of replacing 10 power transformers at ten Municipal Stations (MS) over the period 2012 through 2013. These transformers range in size from 3 MVA to 15 MVA and are used to step down voltage from primary voltages of 27.6 kV or 13.8 kV to secondary voltages of 13.8 kV or 4.16 kV.

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
0.38	0.17	3.48	2.33

Board staff submitted that THESL had only provided justification for the replacement of 7 of the 12 transformers on a non-discretionary basis and that THESL's 2013 requested in-service investment should be reduced by \$1 million.

Energy Probe supported Board staff's submission for this segment.

SEC submitted that the proposed spending in this segment was "business as usual" for THESL and accordingly no ICM should be allowed for this segment.

VECC agreed with Board Staff's analysis, but that as a result of THESL's evidentiary update, two of the five stations noted as being in fair condition are not included in the 2012-2013 period. Accordingly, VECC argued that the in-service additions for 2012 and 2013 should be reduced by \$0.13 and \$0.53 million respectively.

THESL submitted that the evidence demonstrates that all of the units identified for replacement in this project segment are exhibiting significant symptoms of degradation. THESL stated that while it agreed with Board staff that age alone should not be the sole driver for replacement, it is nonetheless an important factor when determining the optimal way to address a degraded condition. THESL noted that the five units in question have an average age of 48 years, which is beyond the typical useful life of 45 years identified in the depreciation study completed for the Board by Kinetrics.⁵

⁵ Kinetrics Inc. *Asset Depreciation Study for Use by Electricity Distributors*, EB-2010-0178, July 8, 2010.

THESL also argued that the work involved to address these issues is much more involved, costly and invasive than “routine maintenance.” THESL added that given its need to address numerous assets in varying conditions, there is a practical limit on the number of assets that can be “closely monitored” at a frequency that would allow for enough time to intervene if necessary. THESL’s evidence is the assets in question have reached a point where repair and maintenance is no longer the prudent option.

THESL urged the Board to reject SEC’s argument that as the program segment budget is in line with historical spending, it is therefore “business as usual”, and does not qualify for ICM relief. THESL argued that the Board should reject any proposed deductions that are based on arbitrary criteria that do not appear in any guidelines or Decision concerning the eligibility for ICM relief.

Board Findings

The Board accepts THESL’s evidence of the condition of the transformers and the need to replace them at this time. As noted earlier, the Board finds that “business as usual” does not, of itself, disqualify a project for an ICM. The Board finds that THESL’s overall approach to the review and management of these assets is acceptable, and that the work proposed at this time is reasonable. The Board approves the ICM funding as requested, subject to the Board’s findings under Issue 2.1.

B13.1 & 13.2 Stations Switchgear – Municipal and Transformer Stations

Background

This segment includes two components: 13.1 which is replacement of switchgear in municipal substations and 13.2 which is replacement of switchgear in transformer stations.

Many Municipal Substations located outside downtown Toronto employ switchgear that are past the end of their useful lives and rely on obsolete technology. The switchgear selected for replacement in this segment were chosen from 181 switchgear across 170 Municipal Substations based on advanced equipment age, equipment obsolescence, lack of arc-resistant design and safety related equipment issues.

Switchgear operating at 13.8kV in many downtown Transformer Stations are past the end of their useful lives, they rely on obsolete technology such as brick and mortar

enclosures, non arc-resistant designs with air blast or air magnetic circuit breakers and mechanical relays and are in poor condition. All but one of the switchgear requiring replacement in 2012 and 2013 are more than 55 years old.

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
1.73	0.77	21.81	14.24

AMPCO and SEC argued that portions (the SCADA/RTU portion) of the proposed programs in this segment were either discretionary or not prudent.

AMPCO submitted that the capital program associated with any bus configuration upgrades should be considered as discretionary, and argued that \$2.43 million of the request is for such work. THESL submitted that accepting AMPCO's position that there should be no funding for the installation of SCADU/RTU control equipment would mean that THESL would have to ignore technological advancement and limit its replacement of equipment to a "bare bones" minimum, which is inconsistent with the Board's direction to consider lowest life cycle cost rather than lowest initial cost.

THESL also argued that the Board should reject the remainder of AMPCO's proposed reductions as they were not based on the evidence, but rather on speculation about bus configurations and switchgear characteristics that were not put to the witnesses.

Board staff, SEC and VECC argued that THESL's evidence suggests that spreading the replacement of the circuit breakers (13.1) over a longer period of time would not pose any imminent danger to either THESL's staff or to the public. Board staff argued that it would be reasonable that THESL assign a high priority to 4 of the 12 municipal stations and that accordingly, THESL's requested \$14.24 million should be reduced to \$11.24 million. Board staff argued that the Board should accept THESL's evidence for segment 13.2.

THESL submitted that switchgear past its useful design life can fail catastrophically at any time, and that such failures carry potential public safety risks in addition to service interruption and consequential costs, especially in residential areas.

THESL noted that VECC's proposed reductions to the TS switchgear segment are premised on the basis that two transformer stations have Health Indices of "Fair".

THESL argued that the Board should reject VECC's position on the basis that health indices do not provide the full context or justification for the proposed TS work and catastrophic failure of non arc-resistant switchgear can pose a potential safety risk to personnel operating within transformer stations and potentially cause a complete station outage.

Board Findings

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

The Board approves ICM funding of \$0.77 in 2012 and \$11.24M in ICM funding in 2013, subject to the Board's findings under Issue 2.1.

B14 Stations Circuit Breakers

Background

Station circuit breaker work proposed for 2012 consists of replacing 9 oil circuit breakers (27.6kV) mounted outdoors and associated control boxes with vacuum circuit breakers at five Terminal Stations.

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
0.76	0.34	0.55	0.76

Energy Probe stated that it had no objections to the projects proposed for this segment, but noted that the amount of funding required is small and should be within THESL's normal capital funding abilities during an IRM period. Energy Probe therefore argued that this segment should not qualify for ICM funding.

THESL submitted that Energy Probe's approach is entirely inconsistent with any prior guideline or Decision concerning the IRM and should be rejected.

SEC submitted that this segment did not meet the requirements of non-discretionary need and therefore and ICM for this segment should not be granted.

VECC submitted that it was unreasonable to consider the replacement of all nine circuit breakers as being non-discretionary in 2012-2013 and that no more than five of these breakers should be targeted for replacement within the ICM. VECC accordingly submitted that the forecast 2012 in-service additions should be reduced from \$0.62 million to \$0.26 million and the forecasted 2013 in-service additions from \$0.76 million to \$0.31 million.

THESL disagreed with VECC's submission stating that the failure of circuit breakers is typically a high impact event and that its evidence demonstrates that the typical useful life of these circuit breakers is 42 years and only one of the nine targeted for replacement is less than 37 years old. THESL also noted that over 70% of its circuit breaker population is over 42 years old reflecting the urgent need to begin replacing these assets immediately.

Board Findings

The Board accepts the need for THESL to undertake this work but finds that the amount requested is not significant in the context of THESL's overall capital budget. THESL should be able to fund this project through its normal capital budget during the IRM period.

B15 Stations Control & Communications Systems

Background

THESL relies on an extensive Supervisory Control and Data Acquisition System (SCADA) for control and monitoring of distribution equipment. THESL uses various types of communication (SONET fibre optics, copper lines, radio system and leased telephone lines) to convey information between station assets and distribution system assets. Station control and communication work proposed for 2012 and 2013 consists of improving SONET communication redundancy, upgrading SONET system communication capacity and installing SCADA RTUs.

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
0.14	0.06	1.00	0.69

AMPCO submitted that the SONET system segment of this program is discretionary and therefore the funding for 2013 in-service additions should be reduced by \$0.14 million from \$0.69 million to \$0.55 million.

SEC submitted that the proposed expenditures for this segment are discretionary as there is no evidence of any wide spread issues of SCADA unreliability and accordingly an ICM should not be granted for this segment.

VECC took a similar view to that of SEC arguing that the work in question appeared to be based more on an interest in coordinating this work with planned station maintenance in 2012 than concerns about imminent failure and that no ICM should be granted for this segment.

THESL argued that installing the proposed SONET fibre was the only effective option to mitigate the SONET system reliability issues and ensure continued service. Where the radio and SCADA equipment is concerned, THESL stated that it had no alternative to the proposed expenditures.

Energy Probe stated that it had no objections to the projects proposed for this segment, but noted that the amount of funding required is small and should be within THESL's normal capital funding abilities during an IRM period. Energy Probe therefore argued that this segment should not qualify for ICM funding.

THESL rejected Energy Probe's argument on the basis that the cost of an individual ICM job, segment or project is irrelevant to its eligibility for ICM funding as the materiality aspect of the ICM framework is a consideration that applies to the overall ICM application (on an aggregated basis) and not to individual projects, segments or jobs.

Board Findings

The Board is not persuaded that this work is non-discretionary. In any event, the amount requested is not significant in the context of THESL's overall capital budget or the portion that will be in-service in 2013. THESL should be able to fund this project through its normal capital budget during the IRM period if it chooses to pursue this work.

B16 Downtown Station Load Transfers

Background

This segment includes the completion of the Dufferin-Bridgman feeder tie work in 2012 that was largely completed in 2011, and two new jobs for 2013 that are required to provide feeder ties between Basin and George and Duke stations; and Basin and Carlaw stations, where no such facilities presently exist. THESL stated that station to station feeder ties are the only solution capable of completely addressing any loss-of-supply incident.

THESL's proposed spending in this segment is summarized below:

\$ millions

2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
0.68	0.30	2.14	1.68

AMPCO submitted that THESL's 2013 in-service additions request should be denied as the project is discretionary since THESL has failed to demonstrate imminent reliability impacts.

Board staff agreed with AMPCO, arguing that the relatively low level of station capacity relief should a low probability/high impact events occur does not warrant the level of investment proposed by THESL.

Energy Probe and SEC agreed with Board staff.

VECC submitted that THESL is already directly addressing the problem of imminent reliability degradation as it relates to these concerns and the work associated with this segment should not be considered as non-discretionary for purposes of the ICM.

THESL argued that Board Staff's analysis underemphasizes two crucial facts, which are, first, that the proposed project will allow these TS to support between 15 and 30% of each other's load which means that thousands of customers will have their outage time reduced in the case of loss of supply to each station and, second, that the proposed ICM job for the Dufferin-Bridgman feeder tie is to complete a project that is already 79% complete.

THESL submitted that it would be imprudent not to complete the final leg of the project and allow it to operate given the amount of work already completed. THESL submitted that the reliability benefit from the work proposed in this segment is sufficiently important to constitute non-discretionary work.

Board Findings

The Board accepts THESL's evidence on the need to undertake this project at this time. The Board agrees that the delays in restoring service are a significant reliability issue and that this work is a prudent approach to resolving it.

The Board also accepts the need to complete the Dufferin-Bridgman feeder tie. Nevertheless, these projects have been planned for and are already close to completion, are not of significant capital cost, and should be able to be absorbed within the existing capital budget during an IRM term. No additional funding is therefore approved.

B17 Bremner TS

Background

THESL's evidence is that the Bremner Transformer Station project is a response to the developing need for distribution solutions in the Toronto downtown. The site of the project presently houses the historic John Street Roundhouse and Machine Shop, opposite the CN Tower. The site area is both a federally and municipally designated heritage site.

The proposed Bremner Transformer Station will be a site-integrated facility, consisting of a structure bounded at the north by Bremner Boulevard and to the south by Lakeshore Boulevard. The Bremner Transformer Station will be an underground station, above which the existing Machine Shop will be re-assembled. The Machine

Shop will house the protection and control and station service equipment, while the major equipment (transformers, switchgear, cabling, etc) will be housed below.

The electrical supply for the station will be taken from existing 115kV electrical circuits within Hydro One's Front Street tunnel. From the tunnel, cables will be routed via a new underground cable tunnel to the Bremner Transformer Station where the 115kV voltages will be stepped down, through transformers, for distribution to customers.

In addition to its business case, THESL filed a report prepared by Navigant Consulting on the need for this facility and the alternatives to it. Mr. Shlatz of Navigant appeared as a witness.

THESL's evidence is that there are four major reasons why the Bremner project is necessary and why it also needs to be completed in the timeframe proposed by THESL. These are:

- (1) The need for more feeder connection capacity for new buildings that are currently being constructed in the vicinity of the Windsor station, as there is no more available bus capacity at Windsor for these connections;
- (2) Bremner will provide relief to the Windsor station, thereby allowing THESL to refurbish obsolete switch gear at that station;
- (3) Bremner will provide an alternative point of supply in the event of an interruption of service at Windsor, thereby providing an enhanced level of reliability to customers in the area; and
- (4) Bremner will provide an additional option for transferring loads east-west across Toronto which will improve reliability standards.

The Ontario Power Authority (OPA) appeared at the hearing and gave evidence on its view of the role of the Bremner TS.

In addition to being a strategic distribution investment for THESL, the OPA cited certain broader benefits of Bremner including that it would bring near-term reliability benefits to the regional area, and it could also substantially defer the need for a larger investment in the future. It will also provide an additional option for transferring loads from the west side of the city to the east side, as required to meet IESO reliability standards.

Environmental Defence (“ED”) filed a report prepared by Energy Profiles Limited. Mr. Robert Bach of that firm was called. The terms of reference provided to Mr. Bach were to “provide evidence on whether the incremental Conservation and Demand Management potential in downtown Toronto significantly exceeds 18 MW.” However, this assumption was wrong, as THESL and Navigant based their analysis on CDM of 58 MW, not 18 MW.

While the Board found Mr. Bach to be a credible witness, his evidence was of little assistance in assessing the need for the Bremner TS as the terms of reference provided to him by Environmental Defence, did not focus on these issues. While Mr. Bach concluded that there is CDM potential in excess of 18 MW, his retainer did not include an assessment of the impact on the need for the Bremner station. Environmental Defence did not call any other evidence that would link these issues.

THESL’s proposed spending in this segment is summarized below:

\$ millions

2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions	2014 Capital Spending	2014 In-Service Additions
8.50	0	81.0	0	34.6	124.1

THESL requested that the Board deem the Bremner station a distribution asset and cited prior examples of Board decisions in support of its request

The Need for the Project

Downtown Toronto is currently served by 5 transformer stations. The largest is Windsor which was built in 1950. It serves 9 of the 10 largest buildings in Toronto. THESL’s evidence is that the age, condition and configuration of the switchgear at Windsor urgently require replacement. The replacement of the switchgear requires backup feeder ties which do not exist. While these could be routed to transformer stations at a greater distance, such as the Esplanade TS, this would be inefficient and disruptive as several kilometres of line would need to be built through the core of the City, a long and difficult process. THESL witnesses also pointed out that it is not common industry practice to serve a secondary network load from that distance.

With respect to growth, THESL’s evidence is that connection requests have increased 58 percent since 2009. As there is no additional capacity at Windsor, these feeder

connections need breaker positions at other transformer stations which increases connection costs. In 2012, 37 MW of new feeder connections were received for Windsor, of which 29 MW had to be diverted to Terauley TS. THESL's witnesses pointed out that apart from the additional cost, this is a non-optimal solution as a longer run feeder is required and the congestion in the downtown area means it is very challenging to the lines into and out of the other stations.

THESL prepared a load forecast for the area in proximity to the proposed Bremner station by examining forecasts, historical data and proposed customer connection in the downtown area served by the 5 existing transformer stations.

As the purpose is to assess station bus capacity adequacy, THESL forecast summer and winter peak, rather than monthly peak demands. The methodology included (1) weather corrected historical demand, (2) addition of new loads according to a buildup formula to recognize that not all projects materialize, and those that do usually overestimate their peak demand, (3) growth rates are applied to obtain peak demand forecasts. The forecast increase in demand is driven only by new customer connections.

For these purposes, natural load growth has been set by THESL at 2% since 2009. The actual load growth has been 2.16% over the last 5 years, but 3.5% in the downtown area for the last 4 years. On this basis, THESL's evidence was that it considers 2% to be a conservative figure.

THESL's evidence is that the Bremner location is ideal to meet both the urgent short-term needs it has identified as well as longer-term considerations. It is close to the load center in the railway lands, it can easily access incoming transmission lines and outgoing distribution lines, and is away from hazards such as flood plains.

THESL argued that the evidence of the OPA had supported the necessity of constructing Bremner, as had Mr. Bach's evidence to the extent that it had noted the very significant growth of the number of new buildings under construction in Toronto at the present time.

AMPCO agreed that THESL had demonstrated the need to increase station capacity in downtown Toronto. AMPCO argued that while some contribution of CDM and distributed generation might defer the need for a new station, the fact of insufficient

conventional local generation and/or transmission pathways into Toronto suggested to AMPCO that Bremner is the most prudent solution available to strengthen the local supply.

Other intervenors who made submissions on the Bremner project generally argued that THESL had not demonstrated the need for the project at the present time. They suggested various ways of meeting the needs identified by THESL in the short term.

The Navigant report notes that one of the consequences of deferral is that equipment failure at the Windsor TS would mean lengthy outages of days or even weeks as there is no alternative supply to customers.

THESL argued that in a circumstance such as this where it's not the need for something that is questioned, but what should be done and when, that extreme caution should be exercised in second-guessing the decision of the distributor. THESL submitted that this was because no one is better placed than the distributor to make such decisions and that even the OPA made it clear that they defer to distributors on distribution-related planning matters such as this one. THESL pointed out that no other expert evidence had been submitted in the proceeding with respect to distribution-related planning.

SEC proposed that Bremner should not be approved in this proceeding and that when the identified needs start to crystalize, THESL should reapply to the Board with three categories of information. The first is the regional supply plan so that the Board can review THESL's proposal in that context, the second is a more sophisticated load forecast and the third is a proper review of all the options. The other intervenors, except AMPCO, generally agreed with the substance of SEC's position.

THESL argued that the Board should not defer its decision for the following reasons:

- (i) It is taking too much risk with respect to the reliability of electricity service in the downtown core;
- (ii) The infrastructure deficit problem will be harder to solve in the future;
- (iii) There is no need for further evidence and scrutiny, as this application is detailed and thorough;

- (iv) It is inconsistent with the process the Board established in this proceeding, of having the Bremner project heard as a separate part of the case. Deferring Bremner after having heard the entire issue would be duplicative and inefficient; and
- (v) It is based on a misperception of the Toronto regional plan under development by the OPA. Rather than an output of the plan, the Bremner station is assumed by the OPA as one of the bases of the plan. Deferring a decision on Bremner would delay the completion of the OPA's work

THESL also submitted that aside from the distribution objectives of Bremner, there are the benefits arising from the project that were referred to by the OPA, which had characterized these regional benefits as an important enhancement and that Bremner adds value immediately.

The key areas in which intervenors argued that THESL had failed to demonstrate the need for the project were: (1) Load Growth, (2) Replacement of Windsor TS Switchgear, (3) New Feeder Connections and (4) Contribution of CDM and DG.

Load Growth

SEC submitted that, in terms of the need for load growth, that Hydro One had said it needed 100% capital contribution for the transmission aspects of the project because in Hydro One's view there won't be any incremental load to cover the cost. SEC also argued that the OPA's evidence is that Bremner will not be needed for new load until much later than 2017.

Some of the intervenors argued that THESL's load forecast is flawed because it is based on historical use. They argued that it overestimates load growth from existing buildings, and that future growth in new buildings will not be as great as in the past, that CDM uptake is likely to increase, and that increasing price of electricity and new codes and standards, and distributed generation will all have an impact.

They argued that these factors significantly push back the date when new transformer capacity will be needed, and taken together show that THESL's load forecast is not credible and is not a sufficient basis on which to approve the project. ED argued that the

revised forecast submitted by THESL to the OPA in January 2013 suggests that there will be sufficient transformer capacity available until at least 2026.

THESL argued that the intervenor arguments regarding its load forecast should not be accepted by the Board. THESL argued that there is no overestimation of the growth coming from existing buildings and no double counting from new buildings. As noted earlier, THESL applied a 50 percent reduction to the initial load from new buildings.

THESL argued that attempting to take into account the impact of electricity price increases would be an extremely speculative exercise.

THESL submitted that the actual historical impact of factors such as CDM, distributed generation, new codes and standards are already reflected in the growth rate figure used by THESL.

THESL argued that to speculate about impacts beyond those already factored into the growth rate would require it to make unreliable assumptions about factors outside control.

Replacement of Windsor TS Switchgear

SEC and ED agreed that the need to switch out or replace the Windsor TS switchgear is well-established.

However they argued that THESL had provided no evidence as to why it needed to be replaced in 2014. They also argued that a lower cost solution would be to use feeder ties either to Esplanade or Strachan to provide this capacity relief at lower cost.

ED submitted that the difference in cost between this alternative and the full Bremner project is \$216 million, with the difference being \$193 million if just the first phase is being addressed. ED argued that the key difference between the Esplanade/Strachan alternative and the Bremner option is that Bremner can be in service in 2014, which is two years earlier than Esplanade/Strachan.

ED argued that the key issue in comparing these two options is whether or not it is necessary to spend an extra \$139 million to \$216 million to advance the in service date for this backup option by less than two years. ED submitted that THESL has failed to

provide quantitative evidence to demonstrate that the extra spending provided good value for Toronto's electricity ratepayers.

ED argued that there was also no evidence on the record that advancing the in-service date for the backup option by less than two years was necessary to achieve compliance with the IESO's Ontario Resource and Transmission Assessment Criteria, or with any other reliability criteria or standards.

THESL submitted that there were numerous reasons not to pursue the Esplanade/Strachan option, mainly relating to timeliness, complexity and cost. As well, for technical reasons, this is an option that would normally not be recommended due to the distances involved.

New Feeder Connections

SEC argued that THESL had not demonstrated that Bremner needs to be approved to provide additional feeder connections in the downtown core.

THESL argued that the need for additional feeder capacity was identified in the pre-filed evidence. The cost of diverting connections to Terauley that would otherwise have been made at Windsor is not the total cost of these connections, it is the incremental cost. THESL also submitted that this is a non-optimal solution for technical reasons.

Contribution of CDM and DG

THESL's evidence was that no amount of CDM increase would eliminate the need for Bremner, as much of it is related to the needs of new connections. The alternative of Distributed Generation was raised, but THESL noted that very few potential sites were being developed for that purpose in the downtown area. THESL suggested that the construction of Bremner might even facilitate the development of DG.

BOMA submitted that the contribution of distributed generation has been marginalized and underestimated, and that the Navigant study had not provided any independent analysis of the potential contribution of CDM and DG in assessing the urgency of and the need for the Bremner station.

ED submitted that where CDM and DG are concerned, THESL hadn't actually assessed them as alternatives, or provided sufficient evidence to the Board to establish that Bremner is the most cost-efficient option as opposed to DG and CDM.

THESL argued that there was extensive evidence about the obstacles to distributed generation and the fact that distributed generation is not an alternative to Bremner. THESL argued that there would be costs associated with DG, and that as higher increments of CDM are sought, the cost to achieve them will increase as well.

Other Issues

Capital Contributions to Hydro One

AMPCO submitted that the Board should request THESL to provide a thorough review of the context and calculations of the capital contribution and that this could be done as part of the section 92 application for the transmission line to service the station. AMPCO explained that this was because it believed that Hydro One was not adequately taking into account the savings that will occur at the other stations.

THESL agreed with AMPCO that careful attention needs to be paid to the amount of the capital contribution to be made to Hydro One. THESL noted it is still negotiating the terms of the capital contribution with Hydro One.

The Board agrees that the context and actual amount of capital contribution needs to be reviewed. The Board expects this to be part of the section 92 application for the transmission line to service the station.

Bremner In-Service Date

AMPCO argued that Bremner should not be added to rate base until 2015 as it saw the in-service schedule for the fourth quarter of 2014 as being optimistic. AMPCO noted that Hydro One has committed only to a fourth quarter 2014 line connection, with this connection being available at the earliest in October 2014. AMPCO further argued that neither load growth, nor load relief needs apply in the fourth quarter of 2014, and that switchgear replacements aren't scheduled until 2015. On this basis, AMPCO argued that an in-service date in early 2015 should not provide a technical or work scheduling difficulty.

AMPCO argued that were the Board to approve the inclusion of Bremner into rate base for 2014, under the six-month rule, there would be a high probability that in 2014 THESL's customers would be paying for assets that were neither used nor useful nor available. AMPCO argued that the Board should not allow Bremner into rate base before 2015.

Given the possibility of delays, Board staff argued that it certainly seemed possible, that the Bremner station may not come into service until after 2014. The Board expects an update from THESL on the status of the Bremner station in-service date during Phase 2 of this proceeding.

Potential Bremner Cost Increases

Board staff submitted THESL's cost estimates might be understated, due to the site's location in proximity to a heritage building, and the design of the station, largely underground, may lead to increased costs, complexities and complications.

Board staff further noted that there have already been several increases to the cost estimates, roughly 70 percent over a three-year period, and some extensions to the proposed in-service dates, from April 2013 to December 2014.

The Board will review Bremner costs to date during Phase 2 of this proceeding and again once it is in-service.

Bremner Rate Treatment

Board staff submitted that it was not entirely clear on the record what rate treatment THESL is proposing for Bremner.

Board staff submitted that any recovery mechanism that is put into place should protect THESL's customers from any cost increases or delays. Where potential cost overruns are concerned, Board staff recommended that this issue be reviewed when THESL seeks to close Bremner to rate base, likely in its next cost of service rates case.

Board staff submitted that any rate recovery in 2014 should be dependent on the project actually entering service in 2014. Board staff accordingly proposed that a deferral account related to any rate rider that may be established should accumulate all amounts

collected through this rate rider, with such amounts, including appropriate interest being subject to refund if the Bremner station does not come into service by December 31, 2014. Staff suggested that this deferral account could be reviewed in THESL's next cost of service or custom IR rate application, whichever it may be, expected for 2015 rates.

THESL argued that the Board's ICM guidelines already contained provision for such a deferral account.

Board staff submitted that only in-service additions should be eligible for recovery through the ICM and there should only be rate recovery for Bremner once it enters service.

In this context Board staff stated its understanding that all the spending is related to the station which is scheduled to enter into service at the end of 2014. Board staff submitted that unless some portion of the project is shown to be coming into service in 2013, then no rate recovery should be granted for that year.

THESL confirmed that its request was that the Board provide a separate rate adder in respect to the Bremner project to the extent that the Board grants approval.

THESL argued that the meaning of the Board staff in-service approach would be that if for example the Bremner project came into service on January 1, 2015, rather than the last quarter of 2014, that the expectation of Board staff would be that the adder would then be completely unwound because of the in-service date being January 1st.

THESL stated that it was committed to the concept of a true-up that will ensure that the ultimate results of the capital spending are fair and appropriate.

Board Findings

The Board accepts the four major reasons put forward by THESL as to why the Bremner TS is needed at this time and deems Bremner to be a distribution asset. These reasons include the need for more feeder connection capacity for new buildings that are currently being constructed in the vicinity of the Windsor station; relief to the Windsor station, thereby allowing THESL to refurbish obsolete switch gear at that station; an alternative point of supply in the event of an interruption of service at Windsor, thereby providing an enhanced level of reliability to customers in the area; and an additional option for transferring loads east-west across Toronto. In making the

assessment that the project is needed at this time, the Board benefitted from the evidence of the OPA that the project was needed and had benefits to the overall system.

The evidence of THESL was that the location of the Bremner station was ideal, despite having some potential challenges with constructing on a historic site. The pace of construction in the downtown core of Toronto suggests to the Board that having a location to build the transformer station now is an opportunity which should not be missed.

The Board notes that the main point of disagreement by some parties was the timing of the project, and whether it was non-discretionary at this time. The Board finds that projects of this type cannot be deferred indefinitely, and sees no benefit in reviewing the project again in a year or two. Rather, the Board finds it prudent to proceed with construction now.

With respect to some intervenor arguments about the benefits of conservation and distributed generation in alleviating concerns over load and load growth, the Board is not persuaded that CDM and DG can eliminate the need for a transformer station. The Board certainly encourages CDM and DG, but this is not an either/or proposition.

Accordingly, the Board finds that THESL has justified the need for the Bremner project and accepts that the project is eligible for ICM treatment. The Board accordingly approves a total recovery of \$184.1 million for this project, consisting of \$124.1 million of 2014 in-service assets and \$60 million of 2014 in-service capital contributions to Hydro One.

The Board notes that unlike for 2012 and 2013, there is no identified 2014 incremental eligible capital funding amount since all information related to 2014 with the exception of Bremner has been withdrawn. Based on the original application which included the 2014 information, it appears to the Board that the \$184.1M would fall within the allowable 2014 incremental envelope. If however, as part of phase 2 of this proceeding, or any other future proceeding that will review 2014 rates, it is determined that this is not the case, the Board will address the matter at that time. The Board notes that the approved spending for Bremner as part of this phase of the proceeding will be included in phase 2 when considering the incremental 2014 eligible capital amounts.

The Board finds that a separate rate rider should be established for the Bremner station.

The Board will provide further direction relating to implementation issues, such as those discussed above, and appropriate accounting treatment under Issue 4.2 which deals with rate implementation matters.

B18 Hydro One Capital Contributions

Background

THESL is required to provide capital contributions to Hydro One Networks Inc. (HONI) for non-contestable work on the transmission system to install new transmission assets and to replace existing assets to support THESL work on the distribution system. The main driver for THESL work is the need to increase supply capacity to connect new customers and to meet current and future load growth.

The two major jobs with large capital contributions required over the next few years are the Bremner Transformer Station and the Leaside-Birch transmission reinforcement job. Capital contributions are also required to support THESL switchgear replacements and engineering studies at five transformer stations and for engineering feasibility studies to be performed by HONI to expand capacity at six transformer stations.

THESL's proposed spending in this segment is summarized below:

\$ millions					
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions	2014 Capital Spending*	2014 In-Service Additions*
22.98	3.69	48.12	10.70	37.0	60.0

*Bremner only

Board staff noted that the updated evidence showed that \$23 million of the 2013 capital contributions are related to the Bremner TS. Board staff further noted that only two of the listed projects, those related to Malvern TS and Leslie MS respectively, had 2013 as expected completion dates and submitted that only the amounts related to these two projects of \$1.48 million should be approved resulting in a total 2013 reduction of \$9.2 million from the in-service amount requested by THESL.

BOMA submitted that THESL should make contributions when the assets are placed in-service and payments should be reduced by \$15.25 million to reflect that contributions will be due in 2014 when transmission facilities are in-service.

Energy Probe VECC and SEC agreed with Board staff.

THESL argued that the Board should reject the arguments made by Board staff and intervenors. THESL submitted that its capital contributions to HONI are necessary investments and should be recovered on the same basis as any other category of ICM-eligible work in this application. THESL noted that it had filed the present application on a capital expenditure basis and accordingly recovery for its capital contributions to HONI should be on that basis and not be tied to the date on which associated capital work comes into service.

Board Findings

Capital contributions are an intangible asset recognized when the assets are in-service. Therefore, contributions related to the Bremner Station will not be recognized until 2014, if the station is indeed in service at that time. The Board finds that the remaining \$1.48 M is not a significant enough amount to be considered an incremental capital module, and can be absorbed within the existing budget during the IRM term..

B19 Feeder Automation (“FA”)

Background

THESL’s Feeder Automation (“FA”) project installs automated switches, software and communications devices on selected trunk feeders, which improve reliability by reducing the impact of trunk-related outages. THESL states that FA is an effective solution to mitigate the impact of outages on the main portions of the feeder (i.e. the trunk) as FA technology can assess the outage and automatically restore power to any non-affected feeders and the customers they serve in less than one minute, which contrasts with the quickest alternative restoration method, remote operation of SCADA switches by a system controller, which takes approximately 30 minutes.

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
2.30	1.02	20.66	13.86

BOMA argued that a pilot project made sense, but that THESL had not presented an adequate analysis to support the roll-out of a system-wide project at this time.

THESL submitted that in BOMA's argument it had asked a number of questions about FA that it saw as not germane to the funding requested in the application and were never raised during the course of the proceeding. THESL noted BOMA's conclusion that no funding should be provided for FA because THESL has not proposed a comprehensive plan and supporting analysis for a system-wide FA roll out.

THESL argued that its evidence was clear that it is not proposing a system-wide FA roll-out, but proposes to implement FA on particular feeders which have exhibited poor reliability due to numerous outages on their trunk portion.

AMPCO argued that no amount should be allowed for this segment in 2013 as the projects proposed to be undertaken do not directly address the issue of aging infrastructure and introduce reliability benefits where adequate system reliability is demonstrated, thereby making the projects in the segment discretionary. AMPCO submitted that this would reduce THESL's forecast 2013 forecast in-service capital budget by \$13.9 million.

THESL responded by pointing out that the overall SQIs referenced by Board staff say nothing about the reliability of the particular feeders being addressed by this segment. THESL argued that its uncontroverted evidence showed that implementing FA on the relevant feeders is expected to reduce their customer interruptions ("CI") by 51% and their customer hours interrupted ("CH") by 44%.

THESL argued that the only reason its overall SQIs have not declined in recent years is because it has pursued programs like FA, which is an extremely cost effective way of improving reliability on poorly performing feeders, and worse performing feeder intervention.

THESL submitted that in order to help it to continue maintaining existing reliability levels, the Board should approve the funding requested for this segment.

THESL urged the Board to reject the arguments of AMPCO and SEC that since FA mitigates reliability issues without focusing on replacing aging infrastructure, the program is discretionary and ineligible for ICM funding. THESL argued that the ICM framework requires that utilities identify the most prudent mechanisms by which to undertake non-discretionary work, but does not require that eligible work merely focus on replacing aging infrastructure.

THESL argued that its evidence shows that the work proposed in this segment is the most prudent mechanism by which it can effectively address imminent reliability concerns.

THESL disagreed with SEC that since FA was a pilot project two years ago, it is not possible to characterize it as non-discretionary work today. THESL submitted that the development, or relative novelty of a given technology is not material to its eligibility for ICM funding. THESL stated that the relevant consideration was whether or not the proposed work satisfies the ICM criteria.

Board Findings

The Board finds that while this work may improve reliability, it is not persuaded that this work is required to be undertaken in 2013. It appears to the Board that this is a discretionary project which can be delayed as it achieves reliability benefits where adequate system reliability has been demonstrated.

B20 Metering

Background

THESL's metering segment relates to needs in two areas: (1) Wholesale Metering Market Settlement Compliance, and (2) Seal Expiring Meters.

With respect to the first area, THESL must replace certain legacy transformers with new transformers between 2012 to 2014 to remain in compliance with the IESO Market Rules and Measurement Canada requirements.

With respect to the second, THESL is required to comply with the metering requirements set out by Measurement Canada in Sections 9, 11 and 12 of the *Electricity and Gas Inspection Act*. These requirements state that all meters must be resealed at specific intervals in order to ensure that a customer's electricity use is being metered accurately.

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
4.74	2.10	8.40	7.75

BOMA submitted that the Board should reduce the amount requested for 2012 to 2013 by \$3.5 million, or 50% and that THESL should negotiate this reduction with the IESO.

THESL argued that it is not able to negotiate obligations arising from its role as a Metered Market Participant. THESL stated that it had committed to a long-term plan with the IESO for this work and requires the requested funding to complete that plan.

THESL submitted that delaying this work could delay the overall implementation of compliant wholesale metering across THESL's service territory which could in turn leave it out of compliance with IESO Market Rules with attendant serious consequences.

SEC argued that ratepayers should not have to pay through an ICM for projects in an area that THESL has historically underspent, most importantly during and prior to its last cost-of-service Test Year. SEC submitted that based on its analysis THESL should be granted an ICM for this segment of \$1.14 million for 2012 and \$4.6 million for 2013.

THESL argued that the Board should reject SEC's argument as it overlooks two critical facts. The first was that the prior capital budgets referred to by SEC were part of a settlement that provided for an overall reduction in the capital budget and that, THESL was not required to spend a specific amount on this work. The second was that in recent years, THESL's spending on wholesale meters had been deferred while THESL and the IESO were evaluating a proposed high voltage metering alternative.

Board Findings

The Board accepts THESL's evidence that these meter replacements are required for compliance with IESO and Measurement Canada requirements, and therefore must be undertaken during the IRM period. The Board does not agree that because this work was not done in prior years it does not qualify for an ICM as it was not specifically included in those capital spending budgets. The Board also finds that it was reasonable for THESL to explore other alternatives before proceeding with this work. The Board approves this funding as requested, subject to the Board's findings under Issue 2.1.

B21 Plant relocations

Background

Construction by governmental and other agencies within the City of Toronto frequently requires THESL to relocate its facilities, and construction projects often provide an opportunity for THESL to expand its infrastructure for future needs in conjunction with a relocation project. This construction includes works on existing public infrastructure such as roads, bridges, highways and rail crossings. Entities initiating this work include Waterfront Toronto, the City of Toronto, the Ontario Ministry of Transportation (MTO), and GO Metrolinx (GO Transit).

THESL's proposed spending in this segment is summarized below:

\$ millions

2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
10.16	4.50	24.84	20.78

AMPCO submitted that the expansion portion of this project associated with the Queens Quay rebuild is discretionary in nature so the approved level of 2013 in-service additions should be reduced by \$14.30 million to \$6.5 million.

BOMA submitted that THESL should pay no more than 50% of the cost of its Queens Quay improvements and therefore recommended a reduction of \$7.8 million in its 2013 approved spending.

THESL argued that neither AMPCO nor BOMA substantiated their positions on this issue.

Energy Probe submitted that as THESL did not have purchase orders for two of the relocation projects, such projects are not certain and accordingly should not be funded through an ICM. Energy Probe accordingly recommended a reduction for 2013 in-service additions of \$3.4 million.

SEC expressed the concern that it was hard to have confidence in the timing and cost of the work in this segment. SEC argued that some of the externally-initiated work is quite obviously “business as usual” which would not qualify for an ICM.

SEC however submitted that THESL’s jobs driven by work regarding the proposed GO Transit Georgetown South Service Expansion, and the major work required for the Queens Quay rebuild undertaken to revitalize the Toronto waterfront initiated by Waterfront Toronto are ICM type projects.

Based on its analysis, SEC submitted that THESL should be granted an ICM for these two projects on an in-service additions basis of \$2.58 million for 2012 and \$17.3 million for 2013.

SEC submitted that it was important to note that the amount ultimately to be spent by THESL may vary considerably as the requesting agency or government in many of these cases is required to contribute funding. SEC argued that since not all the work will end up being done (due to reasons outside THESL’s control), on the true-up, it would be important for THESL to be aware that it may have to return a considerable amount of the funds collected through an ICM rider to ratepayers.

VECC submitted that in the case of Waterfront Toronto-related jobs the majority of the expenditures are related to expansion, as opposed to relocation and VECC argued that there was no evidence that the anticipated growth would lead to capacity issues in the near term making this discretionary spending. VECC submitted that while it was not precisely clear how the Waterfront Toronto-related spending impacts the reported in-service additions for this segment, based on its analysis it recommended reductions in the segment’s in-service additions of \$2.2 million in 2012 and \$10.2 million in 2013.

THESL stated that contrary to VECC’s assertion, it had provided substantial evidence in respect of the near-term capacity issues to be addressed by the Queen’s Quay/Waterfront Toronto work. THESL submitted that this work was not only a matter of prudent planning, but also necessary to address near and long-term capacity issues.

Board Findings

The Board agrees with THESL that this work needs to be undertaken in conjunction with that being done by other agencies, so it is non-discretionary. The timing of the work is also beyond THESL's control and cannot be deferred. The Board approves the amount of funding requested for 2013, subject to the Board's findings under Issue 2.1. The Board also agrees with SEC that certain funds may not be required so a reconciliation of the actual capital contribution will be required.

B22 Grid Solutions

This segment was withdrawn by THESL as stated in its letter to the Board of October 5, 2012. THESL stated that the reason for this withdrawal was that it had concluded that the Grid Solutions project was best considered within a discrete Green Energy Act plan which THESL stated it intended to file at the earliest practicable opportunity.

BXX Engineering Capital

Background

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
8.32	3.69	-	4.63

This segment is described by THESL as related to the ICM understatement of capitalized labour.

SEC submitted that THESL should not be granted any amount for an understatement of capitalized labour attributable to a calculation error understating the allocation of engineering capital to ICM projects. SEC argued that THESL has not provided any supporting materials for its updated calculation including the breakdown by ICM job, segment or even project and that without such information, there is no way for the Board to verify that the calculation is correct.

THESL submitted that it had fully explained the reason for the correction during the proceeding, that no additional supporting materials were requested by SEC or other parties and that at no time during the proceeding did SEC or any other party question

the validity of this correction. THESL argued that there was therefore no valid reason for this correction to engineering capital costs to be rejected.

Board Findings

The Board accepts THESL's evidence on this issue as given during the oral hearing and approves the amounts requested subject to the Board's findings under Issue 2.1.

C1 Operations Portfolio Capital

Background

THESL's Operations Portfolio Capital is made up of the following components: (1) Engineering Capital; (2) Worst Performing Feeder Capital; (3) Customer Connections Capital; (4) Reactive Capital, and (5) Continuing Projects and Emerging Issues Portfolio Capital. THESL stated that the proposed Operations Portfolio capital spending is required to meet THESL's distribution responsibilities to its growing customer base and to address the factors leading to gradually worsening reliability.

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
120.51	53.95	121.63	144.0

Energy Probe noted that this segment includes three main categories of work: (1) Customer Connections, (2) Reactive Capital and (3) Continuing Projects and Emerging Issues. Energy Probe submitted that it had no concerns with the 2012 carryovers to 2013 in service, nor with the in service additions for the first two categories.

Energy Probe's concerns were with the emerging issues component and that categories such as reliability and safety are too general to be considered as justification for funding in an ICM.

Energy Probe submitted that very little had not been covered in the other segments of THESL's request for ICM funding and much of the description for emerging issues is either duplicative of those requests or ambiguous. Energy Probe therefore argued that in- service additions should be reduced by \$25.6 million.

SEC submitted that since the proposed ICM segments consist of much of the overall capital work that a distributor does, a portion of the Operations Capital Portfolio should be discounted to reflect that undertaking this work will delay some of the ICM jobs due to the use of resources for reactive work. SEC accordingly argued that the budget should be reduced by 20% so that the approved Operations Capital Portfolio capital additions should be reduced to \$75.6 million for 2012 and \$120.8 million for 2013.

VECC also expressed concerns about the Continuing Projects and Emerging Issues Portfolio noting THESL's acknowledgement that there is an overlap between the types of issues that will be dealt with under this initiative and the work associated with its ICM requests. VECC accordingly suggested reductions in 2012 in-service additions of \$2.51 million and a reduction in 2013 in-service additions of \$5.64 million.

THESL noted that a central argument made by several intervenors is that the work proposed within the Operations Portfolio, and particularly within the Emerging Issues sub-portfolio, overlaps with similar categories of work for which THESL seeks ICM funding.

THESL submitted that these positions should be rejected for three reasons: The first of these is that there is no overlap between the work in the Operations Portfolio and any ICM project, segment, or job. The second is that there is no basis on which to conclude that any work done on a reactive or emergent basis under the Operations Portfolio would have a material impact on the planned work set out within any ICM project or segment. Finally, the work identified in the Operations Portfolio is non-discretionary and the deferral or reduction of THESL's ability to react to such circumstances would likely prevent THESL from addressing the associated reliability and safety issues, as well as responding to non-discretionary work of external parties.

Board Findings

The Board agrees with intervenors who argued that the Continuing Projects and Emerging Issues Portfolio Capital does not meet the criteria of an ICM. With respect to continuing projects, THESL has provided insufficient evidence on the nature of those projects for the Board to determine whether they are non-discretionary. With respect to emerging issues, this appears to be a general budget allocation for work that might arise, and which can also not be determined to be non-discretionary. The Board approves the other amounts requested in the first four categories, subject to the Board's

findings under Issue 2.1. As part of the Draft Rate Order process, THESL shall identify the in-service amounts for each year that reflect the Board's findings.

C2 Information Technology Capital

Background

The Information Technology (IT) Capital Portfolio for 2012-2013 consists of required hardware asset replacements, application upgrades and 2011 carryover projects that need to be completed. The IT Capital Portfolio provides enabling technology to support critical business processes: Meter-to-Cash, Legal and Regulatory compliance, stakeholder reporting, as well as power delivery and restoration

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
22.00	9.25	15.00	21.47

No parties made comments on this segment.

Board Findings

The Board accepts THESL's evidence on the need to complete this work in the IRM period and approves the amount requested subject to the Board's findings under Issue 2.1.

C3 Fleet Capital

Background

THESL's Fleet is currently composed of 693 motor vehicles, including cars, pickups, bucket trucks and other vehicles (such as sweepers, backhoes and forklifts). The fleet capital spending proposed for 2012 to 2013 is to acquire new vehicles and equipment to replace those existing units that have reached the end of their service lives and where further repairs and maintenance would not be appropriate or cost effective. It is also intended to include the purchase of on-vehicle equipment, such as rubber power line covers.

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
0.80	0.29	2.00	0.76

No parties made comments on this segment.

Board Findings

The Board accepts the need for THESL to undertake this work but finds that the amount requested is not significant in the context of THESL's overall capital budget. THESL should be able to fund this project through its normal capital budget during the IRM period.

C4 Buildings and Facilities Capital

Background

THESL's buildings and facilities include operating centers (500 Commissioners, 60 Eglinton, 6 Monogram, 601 Milner); administrative buildings (14 Carlton, 5800 Yonge); and various electrical sub-stations located throughout the City of Toronto. The Facilities and Asset Management capital plan for 2012-2013 consists of specific non-discretionary projects required to prudently maintain THESL's facilities at an adequate level of repair and maintain compliance with the Canadian Standards Association, Ontario Building Code, Fire Protection and Prevention Act, and various Ontario Regulations of the Ontario Health and Safety Act.

THESL's proposed spending in this segment is summarized below:

\$ millions			
2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
5.00	3.76	5.00	2.89

No parties made comments on this segment.

Board Findings

The Board accepts THESL's evidence that this work is non-discretionary as it is required to meet codes and other external requirements, and that it needs to complete

this work in the IRM period. The Board approves the ICM amount requested subject to the Board's findings under Issue 2.1.

Allowance for Funds Used During Construction

Background

THESL stated that the recovery of allowance for funds used during construction in this segment is related to segments C1 through C4.

THESL's proposed spending in this segment is summarized below:

\$ millions

2012 Capital Spending	2012 In-Service Additions	2013 Capital Spending	2013 In-Service Additions
1.20	0.15	1.40	2.14

No parties made comments on this segment.

Board Findings

The Board accepts THESL's evidence that these funds are related to work which needs to be completed in the IRM period and approves the amount requested subject to the Board's findings under Issue 2.1.

Completion of the Work

Background

THESL noted that SEC had questioned its ability to perform the work it has proposed in the present application, citing in particular a revised workload in 2012 and the specific job requirements demanded by the proposed ICM projects. THESL submitted that its capacity to complete the work is well documented in evidence and further supported by its historic levels of capital spending, particularly in 2011. THESL submitted that in addition should it fail to complete any portion of the work approved by the Board, ratepayers will ultimately be protected with an appropriate adjustment at the time of true-up. THESL argued that it was capable of completing all of the proposed work, but even in the event that circumstances prevent it from achieving full completion, ratepayers will be held harmless.

Board Findings

The Board agrees that THESL has put forward a very aggressive construction program. However, a review of actual spending and in-service additions will be undertaken at the next cost of service proceeding, and ratepayer interests will be protected through that process.

Issue 2.3 Is THESL's proposal that the Board consider ICM projects for a three-year period, severable into three successive one-year rate periods, each with its own ICM rate adder appropriate?

Background

Board staff submitted that THESL's proposal is reasonable given the qualification regarding staff's earlier comments about the appropriateness of applicants in THESL's circumstances in future using the Custom IR approach as outlined in the Board's Renewed Regulatory Framework.

VECC submitted that the Board should make it clear in its Decision regarding THESL's application that it will not consider an ICM application that involves multiple years starting in 2014 or after.

THESL submitted that its proposal is appropriate.

Board Findings

The Board finds that separate rate riders are appropriate for 2023 and 2013, and for the Bremner Station project. The Board needs not opine on ICM applications that involve multiple years starting in 2014 or after, as it is the Board's expectation that the rate-making guidelines and options provided in the Renewed Regulatory Framework will be followed in the future.

Issue 2.4 Is THESL's proposal for an alternative to the standard treatment of the calculation of the ICM threshold together with the Board's practice of exempting certain ICM-approved capital expenditures from the application of the half year rule appropriate?

Background

AMPCO submitted that THESL's circumstances do not constitute compelling reasons to warrant a departure from the Board's Standard ICM approach. Its modified approach should not be accepted by the Board.

Board staff did not support THESL's rate mitigation proposal on the basis that the issues raised by this proposal are generic in nature and should accordingly be dealt with an appropriate generic proceeding.

VECC and Board staff argued that the rate mitigation issue would be dealt with through the adoption by the Board of the proposed "in-service" approach rather than the capital expenditure approach proposed by THESL.

VECC argued that an acceptance by the Board of THESL's alternative proposal would signal to other distributors that variations on the Board's standard ICM approach are acceptable and encourage other distributors to offer their own versions of the ICM.

THESL submitted that its proposal is appropriate.

Board Findings

As discussed earlier in this decision, the Board finds no compelling reason to support departure from the Board's approach to calculating the ICM threshold or the application of the half-year rule.

Issue 3.1 Is the proposed final disposition of the PILs Deferral Account 1562 appropriate, including the proposed rate riders?

Background

Board staff supported THESL's proposal. CCC, Energy Probe and VECC accepted staff's submission.

THESL submitted that the Board should approve these values as no parties had opposed THESL's updated calculation of the PILs 1562 deferral account balance and the proposed rate riders.

Board Findings

The Board finds that the final disposition of Account 1562 in the amount of a credit of \$6,979,536 is appropriate.

Issue 3.2 Is the proposed final disposition of all remaining Deferral and Variance Accounts (i.e. the Group 1 Accounts as well as the Special Purpose Charge Variance Account 1521) appropriate, including the proposed rate riders?

Background

The Report of the Board on Electricity Distributors' Deferral and Variance Account Review Report Initiative (the "EDDVAR Report") provides that, during the IRM plan term, the distributor's Group 1 account balances will be reviewed and disposed if the preset disposition threshold of \$0.001 per kWh (debit or credit) is exceeded. The onus is on the distributor to justify why any account balance in excess of the threshold should not be disposed.

THESL's 2011 actual year-end total balance for Group 1 Accounts including interest projected to April 30, 2012 is a debit of \$4,776,133. This amount results in a total debit claim of \$0.0002 per kWh, which does not exceed the preset disposition threshold.

In its submission Board staff stated that it had reviewed THESL's Group 1 Deferral and Variance ("DVA") account balances and noted that the principal balance as of December 31, 2010 reconciles with the balances reported as part of the Reporting and Record-keeping Requirements. Board staff took no issue with THESL's proposal not to dispose of its DVA balances, as of December 31, 2010 at this time, as the balances did not exceed the disposition threshold.

THESL requested the disposition of a residual debit balance in account 1521 of \$574,577 as at December 31, 2010, plus collections in 2011 and carrying costs until April 30, 2012 over a one year period.

In its submission, Board staff supported THESL's proposal to dispose of the \$574,577 debit balance, including carrying charges to April 30, 2012, in account 1521 at this time. Board staff submitted that the Board may wish to direct THESL to provide an updated

balance for account 1521 that includes carrying charges to December 31, 2012 in its draft rate order.

Board staff also supported THESL's proposal to dispose of this balance and the \$6,979,536 credit balance in account 1562 using a combined fixed and variable DVA rate rider with a one-year recovery period.

CCC, Energy Probe and VECC supported staff's submission.

THESL submitted that clearance of the balance in the 1521 Special Purpose charge account is appropriate. THESL noted that Board staff had suggested that carrying charges on the balances be calculated to December 31, 2012 and THESL stated that it did not object to this proposal and submitted that the Board should approve the updated amount provided by THESL in accordance with the Board's decision in the Draft Rate Order.

Board Findings

The Board finds that no disposition of Group 1 Accounts is required at this time, as the preset disposition threshold has not been exceeded.

The Board finds that THESL is to dispose of the account 1521 debit balance at this time. The Board accepts the proposal of Board staff that the amount of this disposition is to be determined as the updated balance for account 1521 that includes carrying charges to December 31, 2012 with THESL to provide this amount in its draft rate order. The Board notes that THESL did not object to this proposal.

The Board finds that THESL is to dispose of this balance and the \$6,979,536 credit balance in account 1562 using a combined fixed and variable DVA rate rider with a one-year recovery period.

Issue 4.1 Has THESL appropriately complied with the Final Order Regarding Suite Metering Issues dated April 26, 2012 in EB-2010-0142 including its use of the name "Competitive Sector Multi-Unit Residential" for the new Quadlogic class?

Background

Board staff accepted THESL's proposals and explanations for suite metering rate increases that are occurring and noted that they may be transitional in nature.

CCC submitted that THESL had appropriately addressed this issue.

Energy Probe accepted the Board staff submission.

VECC submitted that it was concerned with the definition of this class and by default the definition of the Residential class in that the proposed definition does not provide clarity to customers who are served from these schedules as to which of the two classes they fall into and appears to leave the determination largely to the discretion of THESL.

VECC argued that there should be, at a minimum, some record or documentation clarifying what types of meters fit this definition, which could be done either through THESL's Conditions of Service or through its rate filings.

THESL submitted that it had appropriately complied with the Board's Final Order regarding suite metering issues, including proposing the starting rate for this class, an appropriate name for it as well as a clear description of the customers who would be in it.

Board Findings

The Board accepts THESL's proposals for the Suite Metering Issues, including the new Quadlogic class. The Board is satisfied that the definitions are clear between the classes and trusts that THESL will explain the implications of the new class and rate to its customers in the most appropriate way.

Issue 4.2 Are THESL's proposals relating to rate implementation appropriate for each of the years 2012, 2013 and 2014?

Background

AMPCO submitted that the Board may wish to consider approving variable 2013 ICM rate riders to recover the incremental revenue requirement in 2013.

Board staff accepted THESL's proposed effective date of June 1, 2012 and argued that THESL's proposals related to the true-up process were reasonable.

The City of Toronto argued that THESL's streetlighting rates approved in EB-2010-0142 and any subsequent IRM adjustments thereto, should be held interim from May 10, 2012 until the Board establishes new rates for Street Lighting service as a result of the consultation process recommended in File No. EB-2010-0219 and initiated in File No. EB-2012-0383.

CCC supported an effective date of November 1, 2012. CCC argued that where the true-up was concerned, in order for the mechanism to be effective, there will need to be a link, on a "job by job" basis, or alternatively on a "segment by segment" basis between what is "approved" spending by the Board and the actual spending at the time of rebasing. CCC submitted that once the Board's Decision is issued, THESL should be required to come back with proposals reflecting the revenue requirement impacts of the Board's findings.

Energy Probe requested that the Board reject THESL's approach to calculating the annual ICM revenue requirements and associated rate adders. Energy Probe submitted that THESL instead should be directed to mirror the Hydro One EB-2012-0136 Settlement Agreement methodology in calculating the 2012-2014 ICM Revenue Requirement and rate adders. Energy Probe submitted that the primary differences between the two approaches are: (1) the use of ISAs as the driver for determining revenue requirements, (2) exclusion of 2011 CWIP and the inclusion of a threshold (depreciation plus 20%).

Energy Probe submitted that the details of the tracking mechanism needed to be put into place immediately, otherwise there would be irreparable damage to ratepayers. Energy Probe argued that THESL should submit a draft rate order that includes a detailed portfolio of projects and includes the detail needed to calculate depreciation expense and annual revenue requirements and rate adders. Energy Probe submitted that if this is not done it may be impossible to perform a proper true-up.

Energy Probe argued that since the Board should find that there are no qualifying ICM projects for 2012, the effective date for any ICM rate adders for 2013 should be May 1, 2013.

SEC argued that THESL should be directed in its Draft Rate Order to identify through its own prioritization processes the specific project portfolios, segments and jobs that it will complete in 2013 within the approved budget envelope. SEC submitted that there should be no true-up for overspending that would recover additional amounts during the ICM period.

SEC supported an IRM price cap adjustment effective June 1, 2012, though it argued that there was no basis for a 2012 ICM. SEC submitted that the effective date for any ICM rate adders for 2013 should be May 1, 2013.

SEC submitted that Phase 2 of the present application should be abandoned and THESL should file a Custom IR application for the 2014 to 2018 period.

SEC opposed the City of Toronto's proposal that streetlighting rates be made interim for the specified period.

VECC submitted that for the 2012 IRM/ICM, a November 1, 2012 implementation date is the most appropriate and for the 2013 IRM/ICM, May 1, 2013 is the appropriate date. VECC argued that if the Board determines there should be a 2012 ICM rider, it would support a one year recovery period rather than two years as this may help smooth rates. VECC submitted that a foregone rate rider is appropriate.

VECC argued that the ICM should be viewed as a "contract" by the distributor to undertake certain results at a "price" that was considered to be prudent. Through the ICM rate rider customers will have met their part of the contract. VECC considered the true-up as being a determination as to whether or not the distributor has "delivered" on its side of the contract and whether a "refund" is due to customers if it has not.

THESL submitted that its proposals relating to rate implementation for each of the years 2012, 2013 and 2014 are appropriate.

Board Findings

The Board will not declare street lighting rates interim past the date of the final rate order in this proceeding. In order for rates in one class to be interim, all rate classes need to be interim, as any adjustment to one class affects the rates of one or more other classes. The Board's consultation on cost allocation for street lighting may result

in future changes, however, the timing of this is uncertain as is the outcome. An IRM application is not the appropriate forum to address issues relating to cost allocation and rate design. These issues would ordinarily be subject to review through a cost of service proceeding. IRM term is designed to allow for a relatively mechanistic update to rates without the necessity of a full cost of service record. Although the ICM obviously adds a level of complexity to this analysis, it is specifically permitted through the IRM Guidelines. As discussed to some extent in section 1.3 above, THESL is not permitted to recover its costs during IRM in the same manner that it might in a cost of service proceeding. There is nothing improper in this: IRM and cost of service are simply different methods for setting rates.

Although technically the City of Toronto is not asking to have the cost allocation for streetlighting changed now, it is asking that the ability to adjust the rate retrospectively to 2012 be maintained through interim rates. The Board does not support this approach for several reasons. It seeks to, in effect, allow for changes to cost allocation and rate design during the term of an IRM plan. The Board also holds that it is generally not appropriate to keep rates interim for a lengthy period of time (although there may be exceptions), as it reduces rate certainty and increases the likelihood of inter-generational subsidies. The cost allocation of all THESL rates can be revisited in its next rebasing application.

The Board finds June 1, 2012 to be the effective date for 2012 rates, and May 1, 2013 for 2013 rates. The implementation date shall be as soon as possible following the finalization of the Rate Order. The Board's expectation is that May 1, 2013 would be the implementation date. However, if this date does not provide THESL with sufficient time to implement the Board's Partial Decision and Order, THESL may propose an alternative date in its draft rate order.

The Board further approves the methodology proposed by THESL for the calculation of the rate riders, that being a fixed and variable component. In this proceeding, the Board will not adopt the methodology established through Settlement Agreement in the recent Hydro One case⁶ which is based on a volumetric rate rider for all rate classes. The Board finds that a fixed/variable split, as will be applied once the projects are in rate base, represents a more equitable allocation of costs between rate classes.

⁶ Hydro One Networks Inc. EB-2012-0136 *Decision and Procedural Order No. 4* December 14, 2012.

With respect to the “true-up” of ICM capital spending and rate riders, the Board notes that the policy does not specifically speak of a true-up. Rather the policy requires reporting of the actual spend on the approved ICM projects versus what was approved by the Board. The Board, at the time of rebasing, whether this is through a cost of service review as part of 4th Generation IR, or through a Custom IR application, will determine whether any overspending should be allowed in rate base, or whether any underspending should be returned to ratepayers. This does not require consultation with stakeholders – the exact mechanism will be addressed by the Board subsequently in these findings.

The Board defines a “project” for the purposes of this application as being determined by the “Schedule Number” listing in THESL’s “In-Service Summary of Capital Program.”⁷ This would mean that “B1 Underground Infrastructure” would be the first project, “B2 Paper Insulated Lead Covered Cable – Piece Outs and Leakers” would be the second project and so on down the list to the final item “Allowance for Funds Used During Construction” which, although not given a Schedule Number in the table, would be considered as the final project for this purpose.

The Board does share the concerns of certain intervenors that the monies allocated for ICM projects must be tracked separately and reported separately. Unlike the “envelope” approach often adopted in cost-of-service proceedings, the monies must be reported per project segment as outlined above. Should one project not proceed, for example, the money cannot be used for a different project or to cover overspending on another project.

The Board will permit spending to be moved between the various jobs contained within a project. For instance, Project B1 Underground Infrastructure is shown as containing numerous jobs, among them being “Underground Rehabilitation of Feeder NY80M29” and “Underground Rehabilitation of Feeder SCNAR26M34.” The Board will allow spending to be moved between two jobs of this kind that fall under the same project, but not between two projects, such as B1 and B4 for instance.

In the event that THESL files the Phase 2 2014 application as is anticipated, project spending may also be moved between the approved years within the same project classification without creating a variance. For instance if \$60 million was approved to be

⁷ Toronto Hydro-Electric System Limited EB-2012-0064/Tab 8/Sch. 5-1/App. A Filed 2012 Dec 21.

spent on one project in 2013 in this phase and \$40 million in 2014 in Phase 2 and \$50 million was actually spent in each year, the total amount over the two years would be the same and the Board would not consider this to be a variance. However, if THESL did not file the 2014 Phase 2 application, then any departure from the approved 2013 spending of \$60 million, regardless of the actual 2014 spending, would be considered to be a variance.

Chapter 3 of the Board's Filing Requirements outlines in Section 2.2.7 the ICM Accounting Treatment that the Board expects distributors who have approved ICM amounts to follow. The Board will expect THESL to file as part of its Draft Rate Order a draft Accounting Order based on the approach outlined below:

- To apply the general framework of the ICM accounting treatment outlined in Section 2.2.7 of Chapter 3 of the Board's Filing Requirements
- To record the actual incurred in-service asset costs for each Board-approved project segment in a separate sub-account of Account 1508, Other Regulatory Asset "Sub-account Incremental Capital Expenditures". The name of each sub-account should include the name of the approved project segment.
- To record the collected amounts associated with the rate rider for all approved project segments, except for the Bremner station, effective May 1, 2013 in "Sub-account, Incremental Capital Expenditures 2013 rate rider" of Account 1508, or in a similar account for any 2012 projects.
- To record the collected amounts associated with the rate rider for the Bremner station effective May 1, 2014 in "Sub-account, Incremental Capital Expenditures 2014 rate rider" of Account 1508.
- To specify for in-service assets (used and useful), depreciation expenses which would be recorded in separate sub-accounts in accordance with approved service lives of the assets. In the case of the capital contributions related to the Bremner project, depreciation should also apply to this amount based on the service life of the Bremner station.
- To specify the treatment of the rate rider revenues in the next rebasing application.

Implementation

THESL has applied for rates effective May 1, 2013. The Board declared THESL's rates interim June 1, 2012. The Board finds that the rates ordered in this proceeding shall be effective June 1, 2012 for the purpose of determining the IRM adjustments to 2012 rates and May 1, 2013 for 2013 rates.

Rate Order Process

THESL is directed to file a draft Rate Order that reflects the Board's findings in this Decision. The Board expects THESL to file detailed supporting material, including all relevant calculations showing the impact of this Decision on its proposed revenue requirement, the allocation of the approved revenue requirement to the classes and the determination of the final rates, including bill impacts. A draft accounting order, as has been outlined by the Board should also be included. Supporting documentation shall include, but not be limited to, the filing of a completed version of the IRM excel spreadsheet which can be found on the Board's website.

A Rate Order will be issued after the steps set out below are completed.

THE BOARD ORDERS THAT:

1. THESL shall file with the Board, and shall also forward to intervenors, a draft Rate Order attaching a proposed Tariff of Rates and Charges reflecting the Board's findings in this Decision, by **April 9, 2013**. The draft Rate Order shall also include customer rate impacts and detailed supporting information showing the calculation of the final rates including the IRM model in Microsoft Excel format.
2. Intervenors and Board staff shall file any comments on the draft Rate Order with the Board and forward to THESL by **April 16, 2013**.
3. THESL shall file with the Board and forward to intervenors responses to any comments on its draft Rate Order by **April 23, 2013**.

Cost Awards

The Board may grant cost awards to eligible parties pursuant to its power under section 30 of the *Ontario Energy Board Act, 1998*. When determining the amount of the cost awards, the Board will apply the principles set out in section 5 of the Board's *Practice Direction on Cost Awards*. The maximum hourly rates set out in the Board's Cost Awards Tariff will also be applied.

1. Intervenors shall file with the Board and forward to THESL their respective cost claims within **7 days** from the date of issuance of the final Rate Order.
2. THESL shall file with the Board and forward to intervenors any objections to the claimed costs within **14 days** from the date of issuance of the final Rate Order.
3. Intervenors shall file with the Board and forward to THESL any responses to any objections for cost claims within **21 days** of the date of issuance of the final Rate Order.
4. THESL shall pay the Board's costs incidental to this proceeding upon receipt of the Board's invoice.

All filings with the Board must quote the file number EB-2012-0064, and be made through the Board's web portal at <https://www.pes.ontarioenergyboard.ca/eservice/>, and consist of two paper copies and one electronic copy in searchable / unrestricted PDF format. Filings must be received by the Board by 4:45 p.m. on the stated date. Parties should use the document naming conventions and document submission standards outlined in the RESS Document Guideline found at www.ontarioenergyboard.ca. If the web portal is not available, parties may e-mail their documents to the attention of the Board Secretary at BoardSec@ontarioenergyboard.ca

All other filings not filed via the Board's web portal should be filed in accordance with the Board's *Practice Directions on Cost Awards*.

All communications should be directed to the attention of the Board Secretary and be received no later than 4:45 p.m. on the required date.

DATED at Toronto, April 2, 2013

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary

Appendix A to
Partial Decision and Order
Toronto Hydro Electric System Limited
Applicant and List of Intervenors
Board File No: EB-2012-0064
DATED: April 2, 2013

Toronto Hydro-Electric System Limited
EB-2012-0064

APPLICANT & LIST OF INTERVENORS

April 2, 2013

APPLICANT

Rep. and Address for Service

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**Toronto Hydro-Electric System Limited
EB-2012-0064**

APPLICANT & LIST OF INTERVENORS

April 2, 2013

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Toronto Hydro-Electric System Limited
EB-2012-0064

APPLICANT & LIST OF INTERVENORS

April 2, 2013

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**Toronto Hydro-Electric System Limited
EB-2012-0064**

APPLICANT & LIST OF INTERVENORS

April 2, 2013

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Toronto Hydro-Electric System Limited
EB-2012-0064

APPLICANT & LIST OF INTERVENORS

April 2, 2013

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**Toronto Hydro-Electric System Limited
EB-2012-0064**

APPLICANT & LIST OF INTERVENORS

April 2, 2013

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**Toronto Hydro-Electric System Limited
EB-2012-0064**

APPLICANT & LIST OF INTERVENORS

April 2, 2013

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**Toronto Hydro-Electric System Limited
EB-2012-0064**

APPLICANT & LIST OF INTERVENORS

April 2, 2013

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Appendix B to
Partial Decision and Order
Toronto Hydro Electric System Limited
Issues List

Board File No: EB-2012-0064

DATED: April 2, 2013

TORONTO HYDRO-ELECTRIC SYSTEM LIMITED

EB-2012-0064

Approved Final Issues List

1. Incentive Regulatory Mechanism (“IRM) Schedules and Models

- 1.1 Are the IRM Model filings by THESL, including the tax sharing proposal for 2012, in accordance with the Board’s requirements and, if not, are any proposed departures adequately justified?
- 1.2 Is THESL’s proposal that the Board approve under the IRM framework separate and successive ICM revenue requirements and corresponding distinct electricity distribution rates and rate adders for each of the 2012, 2013 and 2014 rate years appropriate?
- 1.3 Is THESL’s proposal that the Board recognize in rates THESL’s approved 2011 year-end rate base appropriate?
- 1.4 What is the consequence of this application on any future application by THESL for rates for 2013 and/or 2014?

2. Incremental Capital Module (“ICM”)

- 2.1 Is THESL’s application of the ICM criteria appropriate?
- 2.2 Has THESL provided sufficient evidence including consultant reports, business cases and consideration of alternatives, for the proposed capital projects to adequately justify them?
- 2.3 Is THESL’s proposal that the Board consider ICM projects for a three-year period, severable into three successive one-year rate periods, each with its own ICM rate adder appropriate?
- 2.4 Is THESL’s proposal for an alternative to the standard treatment of the calculation of the ICM threshold together with the Board’s practice of exempting certain ICM-approved capital expenditures from the application of the half year rule appropriate?

3. Deferral and Variance Accounts

- 3.1 Is the proposed final disposition of the PILs Deferral Account 1562 appropriate, including the proposed rate riders?

- 3.2 Is the proposed final disposition of all remaining Deferral and Variance Accounts (i.e. the Group 1 Accounts as well as the Special Purpose Charge Variance Account 1521) appropriate, including the proposed rate riders?

4. Implementation

- 4.1 Has THESL appropriately complied with the Final Order Regarding Suite Metering Issues dated April 26, 2012 in EB-2010-0142 including its use of the name "Competitive Sector Multi-Unit Residential" for the new Quadlogic class?
- 4.2 Are THESL's proposals relating to rate implementation appropriate for each of the years 2012, 2013 and 2014?