Message

From: Miriam Heinz [/O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=432D98E745A847AAA0D1821A368FDAC9-MIRIAM HEIN]
Sent: 2017-06-28 1:22:39 PM
To: Miriam Heinz [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=432d98e745a847aaa0d1821a368fdac9-Miriam Hein]
Subject: FW: TORONTO HYDRO'S TRUE-UP APPLICATION EB-2015-0173

From: Miriam Heinz
Sent: September 06, 2016 2:41 PM
To: Miriam Heinz
Subject: FW: TORONTO HYDRO'S TRUE-UP APPLICATION EB-2015-0173

From: Miriam Heinz
Sent: March 21, 2016 12:59 PM
To: Bob Chow; Joe Toneguzzo; Steven Norrie
Cc: Nancy Marconi; Phillip Chisulo; Maia Chase
Subject: TORONTO HYDRO'S TRUE-UP APPLICATION

On March 8, 2016 Toronto Hydro filed an application for approval of an ICM true-up amount of $11.1 M, a resulting ICM True-up Rate Rider, and an associated Rate Order to be made effective November 1, 2016 to December 31, 2017. The application is to present the difference between the revenue collected and the actual revenue requirement associated with actual in-service assets ("ISA" or "ISAS") above the ICM materiality threshold. This application represents a reconciliation process that the OEB directed through an Accounting Order on May 9, 2013 which was part of Toronto Hydro's ICM application (EB-2012-0064) for rates effective June 1, 2012, May 1, 2013 and May 1, 2014. 2012-2014 is the ICM period.

Points of Interest:

REVENUE COLLECTED THROUGH THE INITIAL ICM RATE RIDER

Toronto Hydro collected $41.2 M in revenue from the Initial ICM Rate Rider through to the end of April 2015, when the Initial ICM Rate Rider ended.

ACTUAL ISAS VERSUS FORECAST ISAS

During the ICM Period, differences arose between the ISAs that were forecast at the ICM Application and the actual ISAs, as follows:

i. actual ISAs exceeded forecast ISAs in 6 of the 13 ICM Board-approved segments in the amount of $70.8 M; and
ii. actual ISAs were less than forecast ISAs in 7 of the 13 ICM segments in the amount of $32.5 M.

Overall, Toronto Hydro's prudently incurred actual ISAs exceeded the forecast ISAs on which the Initial ICM Rate Rider was based.

Note: The 13 segments do not include Copeland Transformer Station (referred to as the Bremner Transformer Station at the time of the ICM Application).

APPLICATION OF ICM CRITERIA SET IN EB-2012-0064

In the Phase 1 Decisions, the OEB approved 13 project segments for ICM funding based on the following eligibility criteria:

a) **Materiality:** ISAs in excess of the materiality threshold were eligible for ICM funding provided the criteria below (prudence and need) were met as follows: $173.0 M in 2012; $163.8 M in 2013; and $211.1 M in 2014. Pre-2012 CWIP was included in the calculation of the materiality threshold.
b) **Prudence:** The approved work was prudent if: it is necessary for reliability and adequacy of the distribution system; required to comply with applicable standards and public acceptability; and performed in conjunction with other prudent capital work to achieve the lowest reasonable life cycle cost for customers.
c) **Need:** The approved work was non-discretionary capital work required to: comply with applicable laws or external requirements; maintain public and workers safety; address existing or imminent reliability degradations or capacity shortages; and avoid a material increase in costs that might arise due to project delays.
d) **In-service Additions**: ISAS not capital expenditures in each year were used to determine Toronto Hydro's eligibility for ICM funding. An asset is considered "in-service" or "used or useful" if the necessary work has been completed for the asset to be placed into service.

The True-up calculations are summarized as follows:

a) $41.2 M in Forecast Revenue Requirement was collected through the Initial ICM Rate Rider. The Initial ICM Rate Rider was based on the forecast ISAs in approved ICM Segments that were above the materiality threshold.
b) The Revenue Requirement Associated with Actual ISAs is calculated as $52.3 M. The calculation may be summarized as follows:
   i. The actual ISAs in approved ICM Segments were calculated for each year in the ICM Period;
   ii. The portion of actual ISAs that exceeded the ICM materiality threshold in each year in the ICM Period was calculated. Actual ISAs exceeded the ICM materiality threshold in each of 2012, 2013 and 2014; and
   iii. The revenue requirement associated with actual ISAs in approved ICM Segments that exceeded the ICM materiality threshold in each of 2012, 2013 and 2014 totaled $52.3 M.
c) The difference between the $41.2 M in forecast revenue requirement collected through the Initial ICM Rate Rider and the $52.3 M in revenue requirement associated with actual ISAs is $11.1 M, which Toronto Hydro proposes to recover through a new rate rider (the "ICM True-up Rate Rider") to be established in this proceeding, further to the OEB's direction in the ICM Application.

PROCEDURAL HISTORY

On May 10, 2012, Toronto Hydro filed an Application for 2012, 2013 and 2014 IRM Rate Adjustments and ICM Rate Adders (EB-2012-0064). ICM funding was requested for critical capital projects expected to be carried out during the 2012-2014 period. Toronto Hydro's extraordinary capital needs were a result of a widespread need to renew aging infrastructure through project segments, comprising hundreds of discrete jobs during the

2012-2014, rather than arising from a few large projects (ie Copeland or Bremnar TS) was not part of the ICM Funding requirements.

Phase 1 of the application dealt with years 2012 and 2013. The Board issued a Partial Decision and Order on April 2, 2013 and a Decision and Rate Order including an Accounting Order on May 9, 2013 (collectively, the "Phase 1 Decisions").

Phase 2 addressed the 2014 rate year, and as the project segments for 2014 were consistent with the ICM Segments approved in Phase 1, Phase 2 issues were settled by parties. The Board accepted the settlement agreement on December 18, 2013.

As part of the Phase 1 Decisions, the OEB directed that a true-up process take place at the end of the ICM Period to address any variances between revenue collected through the Initial ICM Rate Rider and the revenue requirement associated with actual In-service Additions expenditures. Variances were contemplated by the OEB in the Phase 1 Decisions and are to be expected when high-level forecasts are used to estimate expenditures for a large, complex capital program consisting of multiple jobs being executed in a dense urban environment.

This forecast-versus-actual segment comparison is done year by year for ease of ratemaking and true-up purposes: in particular, to determine the difference between the revenue requirement collected in each year in the ICM Period and the revenue requirement associated with actual ISAs. However, in accordance with the direction of the OEB, true-up is a segment-level exercise performed over the entire ICM Period. The determination of whether overspending or under spending occurred in an ICM Segment can only be assessed over the entire ICM Period because the OEB permitted Toronto Hydro to move funds between years within each ICM Segment. **In other words, even if Toronto Hydro invested more than the amount forecast for a particular ICM Segment in a given year, no overspending would have occurred until the total amount invested exceeded the total investment forecast in a segment over the entire ICM Period.**

On July 31, 2014 Toronto Hydro filed a Custom Incentive Rate-setting ("CIR") application for 2015-2019 rates. In its CIR application, Toronto Hydro proposed a deferral of the ICM true-up application, noting that as of the filing date (July 31, 2014) the 2012-2014 ICM work program was still in progress.

Later in this proceeding, Toronto Hydro proposed that a variance account be established to capture differences between **(a)** amounts approved in the CIR Decision for inclusion in 2015 opening rate base related to ICM work during the ICM Period, and **(b)** any disallowance based on prudence that may result from the ICM true-up process in this proceeding.

The OEB accepted Toronto Hydro's proposals.

On June 30, 2015 a progress letter was also filed indicating that the True-up Application materials were not yet ready, and that it might be best to file the True-up application after the Board issues a decision in the CIR application so that Toronto Hydro could ensure alignment with any relevant direction and findings in the CIR decision.

Thus by March 8, 2016, this application was ready and filed.

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Regulatory will update you periodically on this application. In the meantime, only the Board's acknowledgement letter has followed the application. The file number EB-2015-0173 was given to the application. All materials may be found here:

http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/search/rec?sm_udf10=EB-2015-0173&sortd1=rs_dateregistered&rows=200

Please forward to others as appropriate.

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