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Vice President and Chief Regulatory Officer  
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September 25, 2013

BY COURIER

Ms. Kirsten Walli  
Secretary  
Ontario Energy Board  
2300 Yonge Street, Suite 2700,  
Toronto, ON, M4P 1E4

Dear Ms. Walli:

**EB-2010-0379 – OEB Draft Report of the Board on Empirical Research to Support Incentive Rate-setting for Ontario’s Electricity Distributors dated September 6, 2013 - Hydro One Networks' Comments**

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Hydro One Networks have reviewed the Draft Report of the Board, the Transcript from the Stakeholder Conference and the individual Presentations.

Hydro One’s responses to the proposed policies and approaches made by the Board in the Draft Report dated September 6<sup>th</sup>, 2013 are below:

- 1. The Board intends to use the 2-factor input price index as the inflation factor.***  
The use of the 2-factor IPI is appropriate.
- 2. The Board has determined that for the first productivity factor determination under the new Price Cap IR, the Board will continue to rely on the index-based approach.***  
This is acceptable to Hydro One.
- 3. Accordingly, the Board has determined that the appropriate value for the productivity factor (Industry TFP) for Price Cap IR is zero.***  
We have serious concerns over the negative productivity evidence and the impact of non-measured outputs such as the Green Energy Act, Hydro One recognizes the Board’s concerns with adoption of negative productivity and the message it would send. Hydro One therefore supports this approach.
- 4. The Board has determined that distributors will be assigned to one of five tranches with stretch factors based on their efficiency as determined through PEG’s econometric total cost benchmarking model.***  
This is an improvement over the previous three groupings as originally recommended by Dr. Kaufmann.

**5. *The Board has determined that the appropriate stretch factor values range from 0.0% to 0.6%.***

We are concerned the impact of non-measured outputs as noted in bullet #3 may change the outcome.

**6. *The Board has determined that PEG's econometric model will be used for benchmarking distributor cost performance.***

Hydro One is concerned with the materiality of the divergence of opinion between the consultants and with the issues raised by various LDCs regarding the quality of the data used. We therefore feel it is still too premature to select one party's model.

It is essential to all Customers, Regulators and LDCs that the methodology for incentive regulation used will promote the correct behavior and desired outcomes. Hydro One is therefore supportive of the Board's continued consultations to determine the appropriate policies and approaches to the rate adjustment parameters for incentive rate setting for electricity distributors and the benchmarking of electricity distributor total cost performance. It is recommended that future work involve comprehensive benchmarking that includes models that combine standards for customer service, distribution system reliability and cost performance.

Hydro One Networks looks forward to its continuing participation in this process.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank