

**Ontario Energy
Board**

P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto ON M4P 1E4
Telephone: 416-481-1967
Facsimile: 416-440-7656
Toll free: 1-888-632-6273

**Commission de l'énergie
de l'Ontario**

C.P. 2319
2300, rue Yonge
27^e étage
Toronto ON M4P 1E4
Téléphone: 416-481-1967
Télécopieur: 416-440-7656
Numéro sans frais: 1-888-632-6273



BY EMAIL

January 8, 2019

Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Walli:

**Re: Hydro One Sault Ste. Marie LP
2019 Electricity Transmission Rate Application
OEB Staff Letter Regarding Expert Evidence, 2019 – 2026 Revenue Cap
Plan
OEB File No. EB-2018-0218**

In accordance with the Decision on Confidentiality and Procedural Order No. 3 issued by the Ontario Energy Board (OEB) on December 14, 2018, please find below a summary of the expert evidence that OEB staff plans to file in this proceeding.

OEB staff has retained Pacific Economics Group Research LLC (PEG) to provide one or more reports presenting PEG's review of the evidence prepared by Power Systems Engineering Inc. (PSE) for Hydro One Sault Ste. Marie LP (Hydro One SSM) with respect to the total cost performance and total factor productivity trends of Hydro One Networks Inc. transmission (Hydro One Transmission) relative to a comparator sample of U.S. electricity transmitters. OEB staff notes that it is this evidence of PSE on which Hydro One SSM has based the productivity and stretch factors of its proposed revenue cap plan.

PEG's analyses will include a detailed review of PSE's report and working papers, and may include new analyses of the cost performance and productivity trends of Hydro One Transmission and the comparator U.S. peer group. PEG's report may also touch on some of the more detailed cost benchmarking work included in Hydro One SSM's application. PEG will assess key aspects of Hydro One SSM's proposed revenue cap plan and provide commentary in the report, discussing salient alternatives, and precedents from other jurisdictions, where relevant.

In addition, PEG staff will prepare responses to interrogatories related to its evidence; assist in the drafting of OEB staff submissions; and attend any technical conference or oral hearing as necessary.

While a team of staff at PEG will work on this engagement, the principal whom OEB staff intends to offer as an expert witness is Dr. Mark Lowry, president of PEG. Dr. Lowry is leading the team at PEG and is an economist who has testified on matters of economic analysis, total and partial factor productivity analysis, cost benchmarking, and incentive regulation, in Ontario, Alberta, Québec, in U.S. jurisdictions and internationally. Dr. Lowry and PEG have been involved in policy consultative processes and applications in Ontario for over 10 years. Of particular relevance is Dr. Lowry's evidence and testimony on similar total factor productivity and cost benchmarking analysis in the following three recent applications to the OEB for approval of rate setting plans for electricity and natural gas distribution and for Ontario Power Generation Inc.'s prescribed hydroelectric generation assets:

- EB-2016-0152: Ontario Power Generation Inc.'s 2017-2021 rate setting plan for prescribed nuclear and hydroelectric generation payment amounts
- EB-2017-0049: Hydro One Networks Inc.'s 2018-2022 Custom Incentive Rate-setting plan for distribution rates
- EB-2017-0306/EB-2017-0307: Amalgamation of Enbridge Gas Distribution Inc. and Union Gas Limited and Rate-Setting Mechanism.

The estimated budget for PEG's work in preparing its evidence in this proceeding is approximately \$210,000. There will be additional costs for matters such as interrogatory responses, drafting of submissions, and hearing attendance that are not included in the evidence preparation costs above.

Yours truly,

Original signed by

Fiona O'Connell
Project Advisor, Major Applications

cc: Hydro One Sault Ste. Marie LP
All registered parties to EB-2018-0218