

**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 16, 2019

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

Dear Ms. Walli:

**Re: Toronto Hydro-Electric System Limited
2020-2024 Electricity Distribution Rate Application
OEB Staff Letter - Expert Evidence
OEB File No. EB-2018-0165**

In accordance with the Decision on Confidentiality and Procedural Order No. 2 issued by the Ontario Energy Board (OEB) on November 21, 2018, please find below a summary of the expert evidence that OEB staff plans to file in this proceeding.

OEB staff have 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 Toronto Hydro-Electric System Limited (Toronto Hydro) with respect to the total cost performance trends of Toronto Hydro and a comparator sample of U.S. and Ontario electricity distributors. OEB staff note that it is this evidence of PSE on which the stretch factor of Toronto Hydro's proposed Custom Incentive Rate-setting (IR) plan is based.

PEG's analysis will include a detailed review of PSE's report and working papers, and may include new analysis of the historical and forecasted cost performance of Toronto Hydro and the comparator group of U.S. and Ontario distributors. The expert will assess key aspects of Toronto Hydro's proposed Custom IR plan, such as the capital factor, and provide commentary in the report, discussing salient alternatives, and precedents from other jurisdictions, where relevant.

In addition, PEG staff will prepare interrogatory responses, assist with submission drafting, and will attend any technical conference or oral hearing as necessary.

While there is a team of staff at PEG on this engagement, the principal whom OEB staff intend to offer as an expert witness is Dr. Mark Lowry, president of PEG. Dr. Lowry 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 three recent applications before the OEB:

- 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.

PEG was retained by OEB staff in Toronto Hydro's most recent Custom IR application (EB-2014-0116) to perform similar analysis and provide expert evidence on total cost benchmarking in that proceeding. Dr. Larry Kaufmann, Dr. Lowry's colleague, was the expert witness in that proceeding.

Further, PEG was OEB staff's consultant in the development of the Total Factor Productivity (TFP) and cost benchmarking model adopted by the OEB for the third-generation Incentive Rate-setting Mechanism (IRM) plan for electricity distribution rate-setting (i.e., Price Cap IR and Annual Index IR) (EB-2010-0379), and on which the cost benchmarking model methodology employed by PSE and PEG, with various technical differences, for the total cost benchmarking evidence in this application and in Toronto Hydro's previous Custom IR plan, are based.

The estimated budget for PEG's work in preparing its evidence in this proceeding is approximately \$162,000. There will be additional costs for matters such as interrogatory responses, submission drafting, and hearing attendance not included in the costs above for preparing the evidence.

Yours truly,

Original signed by

Lawrie Gluck

Project Advisor, Major Applications

cc: Andrew Sasso, Toronto Hydro
Charles Keizer, Torys LLP
All registered parties to EB-2018-0165