Vulnerable Energy Consumers Coalition (VECC) IR #1

VECC-1

Reference: Exhibit M1, page 10

a) At Exhibit D, Tab 1, Schedule 1, page 6 Hydro One Sault Ste Marie (HOSSM) proposes the following revenue cap formula:

(i) Inflation Factor = (currently) 1.2%
(x) Productivity Factor + Stretch Factor = 0% + 0%

$$Revenue\,Adjustment = i - X$$

Please confirm (or correct) that, while it disagrees with aspects of the methodology/data employed by Power System Engineering (PSE), PEG's overall conclusion is in concurrence with HOSSM in that the Utility's revenue requirement should be adjusted in future years by only inflation. That is, that an X-factor – which includes the consideration of both the MFP and the stretch factor – is appropriately set at 0%.

Response to VECC-1: The following response was provided by PEG.

PEG confirms that it recommends a 0% X factor, and is comfortable with the proposed inflation measure. This recommendation includes a -0.34% base productivity trend and an offsetting positive stretch factor.

VECC-2

a) Hydro One proposes to apply the results of the PSE Study to the setting of revenue requirements in its larger transmission company (see EB-2018-0130). Are PEG's conclusions/critique of the PSE study broadly applicable to the related (and much larger) transmission business of Hydro One?

b) Does PEG have any caveats with respect to applying the same revenue requirement adjustment parameters in this proceeding to Hydro One Transmission in EB-2018-0130?

Response to VECC-2: The following response was provided by PEG.

a) PEG's work in this proceeding was not tailored to the special case of Hydro One SSM and is certainly pertinent to the development of an attrition relief mechanism for the larger operations of Hydro One. However, PEG was not asked to prepare evidence for EB-2018-0130 and believes that additional work could be warranted before making a recommendation in that proceeding.

VECC-3

a) A significant cause of the differences as between the PSE and PEG studies are in the period of the data sets, with PEG advocating for a longer study period. What sensitivity analysis was undertaken by PEG to understand the impact on its model of varying data periods?

b) Does PEG agree that there is no consensus in the economic literature as to the root cause(s) of changes in productivity? If technological change is a factor in productivity then why would it not be the case that older data (such as that used by PEG in its modelling) is less meaningful (or predictive) than more recent, if somewhat smaller data sets as used by PSE?

Response to VECC-3: The following response was provided by PEG.

a) The impact of the additional years on the productivity trend of the industry is readily apparent from the different results for the two sample periods.

b) Extensive work is available in the economic literature on the root causes of productivity growth. The relative importance of the various causes is a key issue. Productivity results over a short period can be dominated by various short-run productivity drivers and not be reflective of the longer-term trend. In the present study, the impact of the Energy Policy Act and the adoption of formula rates by many transmission utilities made PSE's shorter sample period improper for recognizing long run trends. Little or no evidence has been presented in this proceeding concerning an acceleration or slowdown in transmission technology change.