



BY EMAIL

June 28, 2019

To: All Parties in EB-2019-0082

**Re: EB-2019-0082 Hydro One Networks Inc. 2020-2022 Transmission Custom Incentive Rate-Setting Application
Proposed Adoption of Certain Evidence from EB-2018-0218**

On March 21, 2019, Hydro One Networks Inc. (Hydro One) filed an application with the Ontario Energy Board (OEB) for a Custom Incentive Rate-Setting (Custom IR) Application for setting and adjusting the revenue requirement for its electricity transmission operations for the period from January 1, 2020 to December 31, 2022. The application proposes to rebase revenue requirement for 2020, followed by annual formulaic adjustments for each of 2021 and 2022. The proposed formula would adjust for inflation less productivity plus incremental capital.

Hydro One's proposed Custom IR formula is similar to a revenue cap, an option also available to electricity transmitters by the OEB's policies.¹ In fact, the formula for adjusting the revenue requirement in 2021 and 2022 is almost the same as the revenue cap proposal for a 2019-2026 plan for Hydro One's affiliate, Hydro One Sault Ste. Marie LP (Hydro One SSM), in EB-2018-0218; the key difference is that Hydro One has proposed a Custom Capital factor (C-factor) in place of the availability of the Incremental Capital Module as proposed by Hydro One SSM.

Further, the proposed inflation, productivity and stretch factors are supported in each case by a report prepared by an external consultant, Power Systems Engineering, Inc. (PSE),² with analyses on transmission inflation and comparing Hydro One's transmission operations to a sample of U.S. transmitters with respect to total factor productivity (TFP) and total cost benchmarking. PSE acknowledges that updates to its report in the current case for Hydro One are limited.³

¹ *Handbook of Utility Rate Applications*, October 13, 2016, and *Filing Requirements for Electricity Transmission Applications: Chapter 2: Revenue Requirement Applications*, February 11, 2016

² Exhibit D/Tab 1/Schedule 1 in the Hydro One SSM case (EB-2018-0281), and Exhibit A/Tab 4/Schedule 1/Attachment 1 in the Hydro One case (EB-2019-0082)

³ Exhibit A/Tab 4/Schedule 1/Attachment 1/p. 5 of 59

The OEB notes that there is a substantive evidentiary record on the econometric analyses on Hydro One's productivity and total cost benchmarking in the Hydro One SSM case. OEB staff retained Pacific Economics Group Research LLP (PEG), who submitted a report⁴ on PSE's analyses and Hydro One SSM's proposed revenue cap formula and parameters. There were interrogatories and responses filed with respect to PSE's and PEG's reports, as well as Technical Conference transcripts and undertakings with respect to PSE's report.

The OEB issued its Decision and Order on Hydro One SSM's revenue cap plan for the 2019-2026 period on June 20, 2019,⁵ and the proceeding is now in the rate order stage.

The OEB is of the view that much of the evidentiary record in EB-2018-0218 pertaining to the PSE and PEG reports would be pertinent to consideration of Hydro One's proposed Custom IR plan in the current proceeding. Adoption of the pertinent record from EB-2018-0218 into the current case should avoid duplication of the record and provide resulting savings in time, effort and costs. The OEB acknowledges that some further testing is warranted, as PSE has filed an updated report, as noted above. However, the OEB is of the view that there should be significant efficiencies obtained from what is already on the record in EB-2018-0218.

In Attachment A, the OEB documents the evidence that it proposes to be adopted from EB-2018-0218. This relates to the PSE and PEG evidence, interrogatory responses of PEG on its filed report, and the Technical Conference transcripts⁶ and exhibits and undertakings filed during or pursuant to the Technical Conference and pertaining to the PSE report.

The OEB notes that the following was granted confidential treatment in EB-2018-0218:

1. Identification of the names and data of specific utilities in PSE's sample during the Technical Conference which would then permit identification of specific U.S. utilities.⁷
2. The "working papers" (data, models, formulae) of both PSE and PEG have been granted confidential treatment in their entirety. These are Microsoft Excel, data base and certain other files that contain the data, models, formulae, statistical software and other documentation used for the TFP and total cost benchmarking analyses summarized in PSE's and PEG's reports. Much of the data are obtained from commercial vendors and are under confidential arrangements

⁴ Exhibit M1 in the Hydro One SSM case.

⁵ Decision and Order, EB-2018-0218, June 20, 2019.

⁶ There is a public redacted Technical Conference transcript and an unredacted confidential version. The difference relates to the identification of the names of some utilities in PSE's sample to prevent identification of the data for individual utilities. However, parties in the current proceeding should not be inconvenienced by the public record.

⁷ Decision on Confidential Items, January 31, 2019.

prohibiting disclosure, while PSE and PEG have augmented the data and analyses with their own expertise, which has commercial value.⁸

The OEB is of the view that it is the public record in EB-2018-0218 which is of most value in the current proceeding. The “working papers” are voluminous spreadsheet and database files of most use to economists and econometricians familiar with these sophisticated models.

In adopting the pertinent record of PSE’s and PEG’s reports and associated evidence from EB-2018-0218, the OEB wants to remind parties of the following:

1. While interrogatories on PSE’s report in this proceeding are permitted, parties should avoid duplication of the EB-2018-0218 record.
2. As noted earlier in this letter, PSE has filed an updated report in the current proceeding, with some changes to the data and models. The “working papers” will be changed from what was filed and granted confidential treatment in EB-2018-0218. Parties that wish to request copies of PSE’s updated “working papers” used for the analyses documented in the updated report filed on the record in the current application for Hydro One may file a request to do so. Any such requests must be in accordance with the OEB’s Practice Direction on Confidential Filings, including filing a completed Declaration and Undertaking for any person who will have access to the “working papers”.

If any party objects to the adoption of the evidence as proposed in this letter, it may do so by filing a letter with reasons by [July 2, 2019]. If no objections are received, the evidence will be considered to have been adopted.

Yours truly,

Original signed by

Kirsten Walli
Board Secretary

Attachment

⁸ For PSE’s “working papers”, Decision on Confidentiality and Procedural Order No. 2, November 6, 2018. For PEG’s “working papers”, Decision on Request for Confidential Documents and Procedural Order No. 4, February 15, 2019.

Attachment A

List of Evidence related to Power Systems Engineering, Inc. and Pacific Economics Group evidence filed in EB-2018-0218 Relevant to TFP and Total Cost Benchmarking Relevant for Consideration of Hydro One Networks' 2020-2022 Custom IR Plan in EB-2019-0082

Identifier	Title/Description
PSE Evidence	
Exhibit D/Tab 1/Schedule 1/Attachment 1	<i>Transmission Study for Hydro One Networks Inc.: Recommended CIR Parameters and Productivity Comparisons</i> , Power Systems Engineering, Inc., May 23, 2018 (PSE Report), in Hydro One Sault Ste. Marie's application filed on July 26, 2018
Interrogatory Responses on PSE's Evidence	<p>Hydro One SSM's IRRs, filed on December 7, 2018 that pertain specifically to the PSE Report and its application to a "revenue cap" formulaic adjustment to the revenue requirement for a regulated firm. The following is a list of these:</p> <ul style="list-style-type: none"> OEB Staff Interrogatory #57 (Exhibit I/Tab 1/Schedule 57) OEB Staff Interrogatory #58 (Exhibit I/Tab 1/Schedule 58) OEB Staff Interrogatory #59 (Exhibit I/Tab 1/Schedule 59) OEB Staff Interrogatory #60 (Exhibit I/Tab 1/Schedule 60) OEB Staff Interrogatory #61 (Exhibit I/Tab 1/Schedule 61) OEB Staff Interrogatory #62 (Exhibit I/Tab 1/Schedule 62) OEB Staff Interrogatory #63 (Exhibit I/Tab 1/Schedule 63) OEB Staff Interrogatory #64 (Exhibit I/Tab 1/Schedule 64) OEB Staff Interrogatory #65 (Exhibit I/Tab 1/Schedule 65) OEB Staff Interrogatory #66 (Exhibit I/Tab 1/Schedule 66) OEB Staff Interrogatory #67 (Exhibit I/Tab 1/Schedule 67) OEB Staff Interrogatory #68 (Exhibit I/Tab 1/Schedule 68) OEB Staff Interrogatory #69 (Exhibit I/Tab 1/Schedule 69) OEB Staff Interrogatory #70 (Exhibit I/Tab 1/Schedule 70) OEB Staff Interrogatory #71 (Exhibit I/Tab 1/Schedule 71) OEB Staff Interrogatory #72 (Exhibit I/Tab 1/Schedule 72) Energy Probe Interrogatory # 23 (Exhibit I/Tab 3/Schedule 23) Energy Probe Interrogatory # 24 (Exhibit I/Tab 3/Schedule 24) Energy Probe Interrogatory # 25 (Exhibit I/Tab 3/Schedule 25) Energy Probe Interrogatory # 26 (Exhibit I/Tab 3/Schedule 26) Energy Probe Interrogatory # 27 (Exhibit I/Tab 3/Schedule 27) Energy Probe Interrogatory # 28 (Exhibit I/Tab 3/Schedule 28) Energy Probe Interrogatory # 29 (Exhibit I/Tab 3/Schedule 29) School Energy Coalition Interrogatory # 17 (Exhibit I/Tab 5/Schedule 17) School Energy Coalition Interrogatory # 19 (Exhibit I/Tab 5/Schedule 19) School Energy Coalition Interrogatory # 20 (Exhibit I/Tab 5/Schedule 20) School Energy Coalition Interrogatory # 21 (Exhibit I/Tab 5/Schedule 21) School Energy Coalition Interrogatory # 22 (Exhibit I/Tab 5/Schedule 22) School Energy Coalition Interrogatory # 23 (Exhibit I/Tab 5/Schedule 23) School Energy Coalition Interrogatory # 24 (Exhibit I/Tab 5/Schedule 24) School Energy Coalition Interrogatory # 25 (Exhibit I/Tab 5/Schedule 25) School Energy Coalition Interrogatory # 26 (Exhibit I/Tab 5/Schedule 26)

	<p>School Energy Coalition Interrogatory # 27 (Exhibit I/Tab 5/Schedule 27) School Energy Coalition Interrogatory # 28 (Exhibit I/Tab 5/Schedule 28) School Energy Coalition Interrogatory # 29 (Exhibit I/Tab 5/Schedule 29) School Energy Coalition Interrogatory # 30 (Exhibit I/Tab 5/Schedule 30) School Energy Coalition Interrogatory # 31 (Exhibit I/Tab 5/Schedule 31) School Energy Coalition Interrogatory # 32 (Exhibit I/Tab 5/Schedule 32) School Energy Coalition Interrogatory # 33 (Exhibit I/Tab 5/Schedule 33) School Energy Coalition Interrogatory # 34 (Exhibit I/Tab 5/Schedule 34) School Energy Coalition Interrogatory # 35 (Exhibit I/Tab 5/Schedule 35) School Energy Coalition Interrogatory # 36 (Exhibit I/Tab 5/Schedule 36) School Energy Coalition Interrogatory # 37 (Exhibit I/Tab 5/Schedule 37) School Energy Coalition Interrogatory # 38 (Exhibit I/Tab 5/Schedule 38) School Energy Coalition Interrogatory # 39 (Exhibit I/Tab 5/Schedule 39) Vulnerable Energy Consumers Coalition Interrogatory # 9 (Exhibit I/Tab 6/Schedule 9) Vulnerable Energy Consumers Coalition Interrogatory # 10 (Exhibit I/Tab 6/Schedule 10)</p>
Technical Conference	
Technical Conference Transcript	Revised Public Redacted Technical Conference Transcript Volume 2 (January 15, 2019) . In particular, the discussion of parties with Mr. Fenrick on p. 39/l. 6 to p. 162/l. 14
Technical Conference Exhibits	Exhibit KTX2.1 Energy Probe Redacted 20190117.pdf
Technical Conference Undertakings	<p>Hydro One SSM's Undertaking Responses, filed January 21, 2019, specifically: JT1.2 JT2.4 JT2.5 JT2.6 JT2.7 JT2.8 JT2.9 JT2.10 JT2.11 JT2.12 JT2.13 JT2.14 JT2.15 JT2.16 JT2.18</p>
PEG Evidence	
Exhibit M1	Empirical Research for Incentive Regulation of Transmission , Pacific Economics Group Research LLC, February 4, 2019 (PEG Report). Form A completed by Dr. Lowry and Dr. Lowry's CV , filed as a separate document accompanying Exhibit M1 are also to be included with this.
Exhibit L1	Responses to Interrogatories on the PEG Report, filed March 18, 2019, with the exception of the response to VECC-2 (Exhibit L/Tab 3/Schedule 2), which pertains solely to the applicability of the revenue requirement

parameters to the 2019 Hydro One Networks transmission application considered in EB-2018-0130. The IRRs are as follows:

[PEG Response to HOSSM_IR_20190318](#)

[PEG Response to Energy Probe_IRR_20180318](#)

[PEG IR Response to VECC_IRR_20180318](#)

The OEB notes that all, including copies of studies conducted and filed by PEG in other jurisdictions, to responses to interrogatories which should be included in the evidentiary record adopted in EB-2019-0082. The following is a list of these documents:

[Attachment PEG-HOSSM-1b Transend_IRR_20190318](#)

[Attachment PEG-HOSSM-1c-HQT_IRR_20190318](#)

[Attachments PEG-HOSSM 5_IRR_20180318](#)

[Attachments PEG-HOSSM 6_IRR_20180318](#)

[Attachment PEG-HOSSM-8_IRR_20180318](#)

[Attachment PEG-HOSSM 11e Hydro Generation_20190318](#)

[Attachment PEG-HOSSM 11e EnbridgeTFP_20190318](#)

[Attachment PEG-HOSSM 11e Enbridge_Econometric_20190318](#)

[Attachment PEG-HOSSM 11e OPG_IRR_20190318](#)

[Attachment PEG-HOSSM 17a - Economic Insights TNSP report_IRR_20190318](#)