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Frank D'Andrea

Vice President, Regulatory Affairs & Chief Risk Officer

BY RESS, EMAIL AND COURIER

September 19, 2019

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4

Dear Ms. Walli,

EB-2019-0082 - Hydro One Networks Inc. ("Hydro One")'s Transmission 2020-2022 Rate Application – Interrogatories on Expert Evidence by Pacific Economics Group LLC on behalf of OEB Staff

In accordance with Procedural Order No. 3 issued August 21, 2019 please find enclosed interrogatories on the above-noted expert evidence filed on September 5, 2019.

Hydro One notes that its consultant (Mr. Fenrick) has now, as of this morning (September 19), received access to Pacific Economics Group's working papers relating to its report dated September 5. The working papers will be reviewed promptly and Hydro One proposes to provide any further IRs arising from them by September 26 (and we will do so sooner if we are able to). We trust in the circumstances that this is satisfactory.

This filing has been submitted electronically using the Board's Regulatory Electronic Submission System and two (2) hard copies will be sent via courier.

Hydro One's points of contact for service of documents associated with the Application remain as listed in Exhibit A, Tab 2 Schedule 1.

Sincerely,

ORIGINAL SIGNED BY KATHLEEN BURKE ON BEHALF OF

Frank D'Andrea

Enclosure: Hydro One Interrogatories on Expert Evidence by Pacific Economics Group

1 **HYDRO ONE IRS ON PACIFIC ECONOMICS GROUP REPORT**

2

3 **1. Reference: Exhibit M1, page 38**

4 In docket EB-2018-0218 (the “HOSSM Case” or simply “HOSSM”), Pacific Economics
 5 Group (“PEG”) corrected certain errors discovered by PSE in PEG’s response to
 6 interrogatory PEG-HOSSM-6i. In an attachment labeled “Attachment PEG-HOSSM-
 7 6i(b)” to that response, PEG displayed a table showing that Hydro One’s 2014-2016
 8 average total cost score was -22.87%, and that its 2019-2022 average total cost score
 9 was -12.35%. Below is the table produced by PEG in the HOSSM Case.

Attachment PEG-HOSSM-6i(b)
**Hydro One's Total Transmission Cost
 Performance Using PEG's Model**

[Actual - Predicted Cost (%)]¹

Year	Cost Benchmark Score
2004	-41.20%
2005	-44.20%
2006	-43.30%
2007	-38.50%
2008	-41.00%
2009	-34.70%
2010	-32.40%
2011	-31.80%
2012	-27.90%
2013	-25.30%
2014	-25.00%
2015	-21.60%
2016	-22.00%
2017	-20.50%
2018	-18.70%
2019	-16.40%
2020	-13.70%
2021	-11.00%
2022	-8.30%
Average 2004-2016	-32.99%
Average 2014-2016	-22.87%
Average 2019-2022	-12.35%

¹ Formula for benchmark comparison is $\ln(\text{Cost}^{\text{HOSSM}}/\text{Cost}^{\text{Bench}})$.

10 However, in the present case (the “Hydro One Networks Case”), in Table 5 on p. 38 of
11 Exhibit M1 (the “PEG Report”), we see a substantial change in PEG’s benchmarking
12 results for Hydro One Networks. PEG’s results have now changed to -2.1% for the 2014-
13 2016 period, and +9.0% for the 2020-2022 period. This amounts to a very significant
14 change in benchmarking results from the results PEG put forth about six months ago.
15 This change is despite the fact that in the present case, PEG apparently: (1) reduced
16 Hydro One’s costs to make the cost definitions consistent, and (2) inserted the company’s
17 revised business plan, with lower spending levels, into the model. We would expect these
18 two cost modifications to improve Hydro One’s score.

- 11
- 15 a) Given this substantial change in results, Hydro One requests that PEG itemize
16 each modification made in the current case, relative to what PEG did in the
17 HOSSM Case. For each modification, we request that PEG provide the impact of
18 that modification on Hydro One’s 2020 to 2022 average benchmark score.

16

24 We request the following table be filled out by PEG, although more rows should
25 be inserted based on the methodological changes identified by PEG. PEG can
26 begin with the model presented in Table 2 of the PEG Report and only change
27 one modification at a time, so we can isolate the impact of each methodological
28 change relative to their results reported in the HOSSM Case. For example, for
29 Change #5, please start with the methodology used in the Hydro One Networks
30 Case (the “Reported Methodology”) and only perform Change #5, so we can see
31 how the reported results would change when only Change #5 is made.

25

28 In light of the results from the completed table, please describe what PEG thinks
29 are the drivers of the large changes from the HOSSM results to the result in the
30 present case.

Change #	Methodological change from HOSSM	2020 – 2022 average benchmark score for HON
0	Reported Methodology	+9.0%
1	Variable changed back to substation capacity per line mile	
2	Depreciation rates changed back to HOSSM values	
3	Cost definition on OM&A changed back to HOSSM definition	
4	Revert sample back to HOSSM sample	
5	Revert to not doing an autocorrelation correction, and use the modeling procedure used in HOSSM proceeding	
6	Revert to including capital gains in capital costs and prices the same way conducted in HOSSM proceeding	
7	Use the implicit price deflator for the Ontario utilities sector the same way used in HOSSM proceeding	
8	Please insert any other changes relative to PEG’s HOSSM methodology that impact results	

8 b) To enable a view of how much PEG’s methodology changes impacted the results
9 from six months ago, please re-run the model used in PEG-HOSSM-6i(a) and (b),
10 with the same exact methodology and sample as used to produce PEG-HOSSM-
11 6i(b), but with Hydro One’s revised business plan incorporated and costs
12 subtracted out to make the cost definitions consistent. From that model re-run,
13 please provide tables similar to those provided in Attachment PEG-HOSSM-6i(a)
14 and PEG-HOSSM-6i(b).

2 **2. Reference: Exhibit M1, page 10 and 11**

9 Please list any and all cases where PEG was the consultant for an energy utility (gas,
10 electric, or a combination) where a “hybrid” approach to O&M and capital in a multiyear
11 rate plan was proposed, and provide any PEG reports from those cases. For the definition
12 of “hybrid” we use PEG’s definition found on p. 34 of their EEI paper “Alternative
13 Regulation for Emerging Utility Challenges: 2015 Update” where it states: “A hybrid
14 approach to ARM design was developed in the US that involves indexing of revenue for
15 O&M expenses and forecasts for capital cost revenue.”

- 10
- 12 a) Would PEG consider Hydro One’s proposal in the current case to be a “hybrid”
13 plan?
- 14 b) Have any other hybrid plans in the US included a “supplemental stretch factor” on
15 capital?
- 17 c) Has PEG in its prior work for utility clients or the EEI ever recommended a
18 supplemental stretch factor on capital in a hybrid multiyear rate plan? If so,
19 please provide.

18

19 **3. Reference: Exhibit M1, page 28**

23 PEG states it excluded Hydro One’s cost categories for transmission by others (account
24 565), load dispatching (accounts 561-561.8), maintenance of miscellaneous regional
25 transmission plant (account 569.4), and miscellaneous transmission expenses (account
26 566).

- 24
- 26 a) Please provide the amounts subtracted for Hydro One in each category for each
27 year, including the forecasted years.
- 28 b) Please discuss the methodology used in determining those subtracted amounts for
29 Hydro One for each year.
- 30 c) Please discuss why the new category of costs (account 569.4) are now being
31 excluded, but were not in PEG’s HOSSM research.

2 **4. Reference: Exhibit M1, page 56**

3 PEG discusses its approach to capital cost and quantity.

4

7 a) Please confirm that for the US sample and for Hydro One, PEG: (1) separated out
8 the transmission capital and general capital, and (2) applied different depreciation
9 rates and service life assumptions to each.

10 b) Please provide the depreciation rates used for transmission capital and general
11 capital for the US sample and for Hydro One. If these are different for the MFP
12 and benchmarking research, please provide the rates for each study.

12 c) Was this a modification from PEG's HOSSM benchmarking and productivity
13 research? If yes, why was this change made?

16 d) Did PEG also disaggregate Hydro One's capital into its transmission and general
17 components? If yes, please describe how this was undertaken. If not, please
18 describe why not, and whether the failure to disaggregate would jeopardize the
19 cost comparability between Hydro One and the rest of the sample.

18 e) In what year did PEG levelize the capital price for Hydro One and the US
19 sample?

19

20 **5. Reference: Exhibit M1, page 22**

23 PEG states that PSE's parameter estimates are degraded by not using PEG's older capital
24 data, which goes back to 1964. PSE instead used data beginning in 1989, as this is the
25 first year for which data is readily electronically available for the sample.

24

27 a) Does PEG believe that any possible inaccuracy resulting from the 1989 capital
28 benchmark year used by PSE is mitigated by the fact that plant additions for the
29 years before 1989 are substantially depreciated by the later years in the sample?

30 b) In PEG's response in PEG-HOSSM-6j in the HOSSM Case, PEG showed results
31 that moving from PEG's 1964 benchmark year to the 1989 benchmark year
32 changed Hydro One's results for 2019-2022 only about two percentage points,

- 3 from -12.35% to -14.65%? Does PEG have reason to believe the impact is larger
4 now? If so, please quantify.
- 8 c) PEG and PSE produce nearly identical industry MFP growth rates over the
9 sample period of 2005 to 2016: PEG reports an industry MFP decline of -1.47%
10 and PSE reports an industry MFP decline of -1.45%. Given the large capital share
11 found in the transmission industry, if this really was an important issue, would
12 PEG expect the results to be different between the two consultants?
- 17 d) PEG needed to correct certain errors in the HOSSM Case, due to incorrectly using
18 its 1964 data. This substantially impacted the results from PEG's original
19 research. In fact, once these corrections were made by PEG in the HOSSM Case,
20 the total cost results for HOSSM were changed past the 4GIR threshold where a
21 0.15% stretch factor would be appropriate. Given this history of errors in the
22 HOSSM Case with this data, and the fact that this data is not electronically
23 available for download, but must be manually found and entered and cannot be
24 readily verified by an external consultant, what assurances can PEG give that this
25 data is now fully accurate and trustworthy?
- 25 e) In PEG's response in PEG-HOSSM-6h(ii), PEG stated it has the source data for
26 all the capital data going back to 1964. However, PEG refused to provide this
27 data on the grounds that it was an onerous request for it to provide the source
28 data. This refusal was despite the enormous effort it would require another
29 consultant to track down this 55-year-old data. Please scan and provide PDFs of
30 the source data so it can be verified by another party. If providing the source data
31 is still considered to be onerous, would PEG allow PSE access to PEG's source
32 data, and be allowed to scan the source data themselves?
- 28 f) Please describe the process that PEG undertook to gather and process the data
29 going back to 1964. The description should include specific book titles for each
30 year and libraries visited.

2 **6. Reference: Exhibit M1, page 22**

5 PEG states that the “short sample period” of PSE unnecessarily reduces the precision of
6 the econometric model parameter estimates. PEG also states that the sample period
7 produces an “inappropriately negative value” for the trend variable parameter.

- 8 a) Given PEG’s concerns for a longer sample period and the availability of the data,
9 why did PEG not add the years 2017 and 2018 to the data sample?
- 10 b) Did PEG conduct any preliminary work to update the dataset to 2017 and/or
11 2018? If so, please provide any preliminary results of that work.
- 16 c) In the recent Toronto Hydro proceeding, PEG updated its research to 2017 (all the
17 2018 data was not yet available but is now). In this Hydro One proceeding, PEG
18 has made a special point about the importance of a longer sample period. Given
19 PEG’s concern over a short sample period, please update PEG’s MFP and total
20 cost benchmarking study samples to and including 2018. Please revise Table 2, 3,
21 and 5 of the PEG Report accordingly.
- 25 d) Both PSE and PEG find the industry has negative productivity trends over the
26 time periods used (2005 to 2016 for PSE, 1996 to 2016 for PEG). PEG finds the
27 industry from 1996 to 2016 has negative productivity growth of -0.25%.
28 However, in PEG’s econometric total cost model the trend parameter estimate in
29 the current report is -0.006 (see Table 2 on p. 33 of Exhibit M1). This implies, all
30 else equal, a positive productivity trend over this period of 0.6%. Is PEG
31 concerned that its econometric model trend parameter is not consistent with its
32 own productivity trend research? Please explain and discuss why PEG believes
33 this discrepancy exists.
- 27 e) Please confirm that PEG’s own research indicates that the transmission industry
28 has had negative productivity growth for the ten most recent years of the sample.
- 31 f) Please confirm that out of the last eight years, all years but one had productivity
32 declines lower than -1.00%. In the one year that had the highest productivity
33 growth the growth rate was still -0.66%. However, PEG’s model has a trend
34 estimate showing a 0.6% productivity improvement in each year, all else equal.

3 On what basis does PEG think +0.6% is a reasonable estimate of the productivity
4 trend in the forecasted years of 2020 to 2022?

5 g) Does PEG's benchmark for Hydro One in the forecasted years assume a +0.6%
6 annual productivity improvement?

8 h) Given PEG's concern over this issue, please re-run the PEG model and add a
9 quadratic trend variable to the model (Trend*Trend). Please provide a revised
10 Table 2 and Table 5 showing the benchmarking model and results.

9

10 **7. Reference: Exhibit M1, page 22**

14 PEG says it does not object to the construction standards index variable used by PSE, but
15 notes that it addresses a special cost disadvantage of the company, when special
16 advantages could be ignored. PEG also says it believes that PSE misstated Hydro One's
17 value for the variable.

15

17 a) What special advantages for Hydro One are being ignored in PSE's model? If
18 there are any, what prevented PEG from inserting them into their own model?

22 b) Did PSE also construct variables that do not address a special cost disadvantage
23 of the company such as KM of Tx line, Ratcheted maximum peak demand,
24 average substation capacity, number of substations per KM of line, average
25 voltage of Tx lines, percent of KM line that is underground, percent of Tx plant in
26 total plant?

30 c) In the technical conference, Mr. Fenrick (lead author of the PSE report) stated that
31 PSE examined the transmission service territory of Hydro One and that the
32 current approach of using the retail service territory of Hydro One is a
33 conservative one. The variable value for Hydro One is higher (i.e., more
34 challenging) if the transmission service territory is inserted rather than the retail
35 service territory. Given PEG's concern over this issue, please re-run the PEG
36 model and substitute the value 0.99 for the current value for the construction
37 standards variable for Hydro One and revise Table 5 of the PEG report.

2 **8. Reference: Exhibit M1, page 23**

7 PEG states that PSE forecasted Hydro One's OM&A expenses to grow by OM&A price
8 inflation during the forecasted time period. PEG further states as follows: "Since the
9 Company's output growth is expected to be near zero, this implies 0% OM&A
10 productivity growth. However, PSE calculated a 1.11% average annual decline in the
11 OM&A productivity of sampled transmitters." PEG refers to this as a "rosy scenario".

- 8
- 10 a) How did PEG escalate Hydro One's OM&A expenses during the forecasted
11 period?
- 13 b) If PEG believes that OM&A expense growth increasing by inflation (assuming
14 zero growth) is a "rosy scenario," does PEG believe it is appropriate to only allow
15 OM&A revenue to be escalated by less than inflation?
- 15 c) Given PEG's statement, what does PEG believe an appropriate productivity factor
16 would be for the OM&A portion of the revenue requirement?
- 16

17 **9. Reference: Exhibit M1, page 24**

19 PEG states that only Toronto values were used to levelize the Company's construction
20 cost index, even though much of the transmission system is located far from Toronto.

- 22 a) What city values did PEG used in their research to levelize the construction costs
23 for Hydro One?
- 25 b) Does PEG believe that it may be possible that construction costs for Hydro One
26 are higher than those in the Toronto index, due to the company serving relatively
27 remote and hard to reach areas?
- 26

27 **10. Reference: Exhibit M1, page 33**

29 PEG produced an econometric model that has one variable difference from PEG's
30 HOSSM work, and that has one fewer variables relative to PSE's research.

- 4 a) Please verify that the only variable change from PEG's HOSSM model to PEG's
5 current model was that rather than substation capacity per line mile, the variable
6 has been modified to substation capacity per substation.
- 6 b) Why was the variable modified from substation capacity per line mile to
7 substation capacity per substation?
- 10 c) Does PEG believe the number of transmission substations is a relevant cost driver
11 for a transmission utility, particularly in light of the fact that PSE found the
12 number of transmission substations to be a statistically significant cost driver with
13 a large t-stat of 7.300?
- 16 d) Is PEG concerned that a transmission utility with a relatively large number of
17 smaller substations that serve more remote areas may be disadvantaged in PEG's
18 model? For example, if Hydro One added 1,000 smaller substations on its
19 system, PEG's substation capacity per substation variable would be lowered for
20 the company, implying lower substation costs, yet obviously the company's costs
21 would increase substantially.
- 21 e) Substation capacity can be thought of as the number of transmission substations
22 multiplied by the average capacity of those substations. PEG only has one of
23 those measures in its model and omits the other component, whereas PSE controls
24 for both components. Does PEG believe that substation capacity is an important
25 cost driver of transmission costs?
- 26 f) Given that this is the only major variable difference between PSE and PEG's
27 models and the variable change PEG made from their HOSSM research, please
28 re-run PEG's model leaving all other methodologies intact, but adding the number
29 of Tx substations per KM of line variable to PEG's model. Please revise Table 2
30 and Table 5 of the PEG Report accordingly.
- 29 g) How did PEG determine the value for Hydro One for its percent of transmission
30 plant that is overhead? Why did PEG not use the physical percentage of overhead
31 lines, similar to what PSE used for their undergrounding variable?

- 4 h) Please describe the autocorrelation and heteroskedacity procedure implemented
 5 by PEG. In the description please discuss how PEG determined any weighting
 6 necessary for the correction.

5

6 **11. Reference: Exhibit M1, page 35**

8 PEG's 2005-2016 industry MFP growth rate is equal to -1.47%. PSE's reported MFP
 9 growth rate over the same period is -1.45%.

9

- 11 a) Would it be PEG's opinion that the PSE and PEG MFP methodologies and results
 12 for the US MFP studies are quite similar, other than the sample period employed?
 14 b) Please list any differences in the treatment of capital and OM&A in between
 15 PEG's MFP study and total cost benchmarking study (e.g., depreciation rates, cost
 16 definitions, etc.).

15

16 **12. Reference: Exhibit M1, page 48 and 49**

20 PEG discusses sources of productivity growth. PEG states on p. 48: "System age can
 21 drive productivity growth in the short and medium term." On p. 49 PEG states that a
 22 utility with unusually slow output growth and unusually high number of assets needing
 23 replacement might have unusually slow productivity growth.

21

- 23 a) Does PEG believe that the industry's overall system age is possibly contributing
 24 to the productivity growth rates below -1.00% in recent years?
 26 b) Does PEG believe the industry will resolve the aging infrastructure issue prior to
 27 2021, and that as a result productivity trends will increase from their recent
 28 strongly negative trends?
 29 c) Does PEG believe it is a possibility that Hydro One will have unusually slow
 30 output growth in 2021 and 2022, with an unusually high number of assets needing
 31 replacement?
 31 d) If we assume that Hydro One has unusually slow output growth and an unusually
 32 high number of assets needing replacement, please explain how it is

4 compensatory to the utility to place a total stretch factor of 0.72% on the utility's
5 capital, requiring it to exceed the capital productivity of the industry by an
6 extraordinary amount.

5

6 **13. Reference: Exhibit M1, page 60-69**

7 PEG discusses their calculations of the supplemental stretch factor.

8

11 a) PEG recommends a supplemental stretch factor of 0.42% applied to the capital
12 portion of the revenue requirement. Please verify that this 0.42% assumes an X-
13 Factor of 0.0%.

13 b) If the X-Factor was set at the PEG recommendation of 0.05%, would PEG's
14 recommended S-Factor be lowered to 0.37%?

15 c) If the X-Factor was, instead, set at the HOSSM value of 0.3%, would this lower
16 the PEG recommendation of the S-Factor to 0.12%?

17 d) Did PEG consider the company's progressive productivity proposal in its plan
18 when setting the S-Factor?

20 e) If the progressive productivity proposal amounts to a 0.15% stretch factor in 2021
21 and a 0.3% stretch factor in 2022, and the Board determines a 0.3% X-Factor,
22 would PEG then recommend a negative S-Factor?

21

22 **14. Reference: Exhibit M1, page 19 and 20**

26 One of PEG's critiques of PSE's productivity study is the sample period used. PEG
27 states on p. 20 that transmission capex was boosted during the 2005 to 2016 period due to
28 the need to improve the functioning of bulk power markets and to access remote
29 renewable resources.

27

29 a) Does PEG believe that system age and aging infrastructure could also have an
30 impact on capex spending and thus cause slower productivity trends?

- 4 b) Does PEG believe that the cost pressures that have resulted in strongly negative
 5 productivity trends in the transmission industry in recent years will subside by
 6 2021 and 2022?
- 7 c) Will aging infrastructure of the transmission system built in the aftermath of
 8 WWII and during the increased electrification of society in the 1960s subside by
 9 2021, in PEG’s opinion?
- 10 d) Will the recent phenomenon of distributed energy resources (such as renewable
 11 generation) subside by 2021, in PEG’s opinion? Does PEG believe it is possible
 12 the trend towards distributed energy resources may accelerate in future years?
- 16 e) On p. 47 of a PEG authored publication for the Edison Electricity Institute (EEI)
 17 entitled, “Alternative Regulation for Emerging Utility Challenges: 2015 Update”,
 18 PEG states that formula rates were used by the FERC in an effort to facilitate
 19 “urgently” needed investments in the power transmission industry. Please
 20 provide all the reasons why PEG stated that investments in the transmission
 21 industry were urgently needed.

17

18 **15. Reference: Exhibit M1, page 29 and 30**

19 PEG discusses the treatment of input prices in their research.

20

- 25 a) Given that PEG uses different input price indexes that measure different items and
 26 different treatments of capital in their research, and evidently uses different
 27 capital treatments and depreciation rates between Hydro One and the US sample,
 28 does PEG believe the Hydro One MFP (Table 4 in PEG Report) and industry
 29 MFP results (Table 3 in PEG Report) are comparable?

26

- 30 b) Please calculate the 2004 to 2016 average growth rates for the total input price
 31 and the components of labour, non-labour, and the capital price for both Hydro
 32 One and the average for the US sample. Please insert the results into the
 33 following table.

Input Price Component	Hydro One 2004 to 2016 Growth Rate	US Sample Average 2004 to 2016 Growth Rate
Total Input Price		
Labour Component Input Price		
Non-Labour Component Input Price		
Capital Component Input Price		

2 **16. Reference: Exhibit M1, page 69, table B4**

3

6 a) In Table B4, PEG shows its calculations for the proposed “S-factor”. Please
 7 reconcile the capital cost shown in the CK line of the identified table with Hydro
 8 One’s capital costs, as shown in Exhibit B, Tab 1, Schedule 3.

7 b) Please explain how PEG has calculated the CK^{NEW} variable in the table.

8

9 **17. Reference: Exhibit M1, page 68**

13 Hydro One notes utilities are allowed cost recovery for assets once they are placed in
 14 service, as opposed to when capital costs are actually incurred. As indicated in Exhibit C,
 15 Tab 2, Schedule 1, there are differences in the timing of capital costs and when assets are
 16 put in-service due to the multi-year nature of large transmission projects.

14

16 a) Given this fact, please explain why it is appropriate for PEG to assume that
 17 equations [B23] and [B33] should be equal.

18 b) Please explain how PEG is considering the timing difference between capital
 19 spending and in-service additions in calculating the RK parameter.

19

20 **18. Reference: Exhibit M1, P. 11, page 42**

22 PEG states that customers must fully compensate Hydro One for expected capital revenue
 23 shortfalls when capex is high for reasons beyond its control.

- 3 a) Please clarify PEG’s statement and provide examples of situations when
4 ratepayers would fully compensate Hydro One’s capital revenue shortfalls.

5 **19. Reference: Exhibit M1, page 42**

6 PEG makes several statements on page 42 of the report.

- 7
10 a) On page 42 of the report PEG states that “The Company can then be compensated
11 twice for the same capex: once via the C-factor and then again by low X factors in
12 past, present and future IRMs.”

- 12 i. Please clarify this statement and provide examples of how a utility would
13 be compensated twice for the same CapEx.

- 15 b) On that page PEG also states that “the Company need not return any surplus
16 capital revenue in future plans if capital cost growth is unusually slow for reasons
17 beyond its control”.

- 20 i. Please explain what surplus capital revenue would be owed to customers
21 given: (i) that the proposed capital in-service variance account protects
22 customers over the test period of the application; and (ii) that revenue
23 requirement increases in a future term would be set based on the expected
24 capital cost growth forecast at that time.

21
22 **20. Reference: Exhibit M1, page 45**

29 On pages 44 and 45 PEG lists various alternatives for the OEB’s consideration. On page
30 45 PEG states that “The proposed capex budget could be reduced by a material amount,
31 as in the OEB’s decisions in the last Toronto Hydro proceeding and the Hydro One
32 distribution IR proceeding.” PEG then states that after considering the pros and cons of
33 each option that it recommends that the OEB add a supplemental stretch factor calibrated
34 “so that it produces a markdown on plant additions that is similar to what would be
35 produced by an ACM.”

- 1 a) Please confirm that PEG’s recommendation of the calibration the S-factor is
2 based on the assumption that no other reductions are made to Hydro One’s
3 proposed capital envelope.
- 4 b) Please provide a reference in OEB materials that indicates or implies that the
5 OEB intends the ACM/ICM materiality threshold to serve as a “markdown” on
6 capital expenditures.
- 7 c) Please explain why the OEB’s ACM/ICM mechanism is relevant when the OEB
8 made clear as follows at p. 14 of the *Report of the Board, New Policy Options for*
9 *the Funding of Capital Investments: the Advanced Capital Module* (emphasis
10 added):

11 *...there must be a clear distinction between a cost of*
12 *service application under the Price Cap IR option (with*
13 *ACM proposals beyond the test year), and the Custom IR*
14 *method. The use of an ACM is most appropriate for a*
15 *distributor that:*

- 16 • *does not have multiple discrete projects for each of the*
17 *four IR years for which it requires incremental capital*
18 *funding;*
19 • *is not seeking funding for a series of projects that are*
20 *more related to recurring capital programs for*
21 *replacements or refurbishments (i.e. “business as usual”*
22 *type projects); or*
23 • *is not proposing to use the entire eligible incremental*
24 *capital envelope available for a particular year.*