EB-2019-0261

IN THE MATTER OF the Ontario Energy Board Act, 1998, being Schedule B to the Energy Competition Act, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Hydro Ottawa Limited to the Ontario Energy Board for an Order or Orders approving or fixing just and reasonable rates and other charges for the distribution of electricity effective January 1, 2021.

HYDRO OTTAWA LIMITED
CUSTOM INCENTIVE RATE-SETTING APPLICATION FOR 2021-2025 DISTRIBUTION RATES AND CHARGES

Energy Probe

Interrogatories to Board Staff/Pacific Economics Group

June 26, 2020

CUSTOM PRICE ESCALATION FACTOR /CUSTOM IR PLAN

M-EP-1
Reference: Exhibit M, Page 7
Preamble: *"We believe that it desirable to go beyond econometric total cost benchmarking in Custom IR proceedings by benchmarking major cost sub-aggregates such as operation, maintenance, and administration ("OM&A") expenses ("opex") and capital cost."*

a) Please provide a copy of the Letter of Retention from Board Staff and if available, detailed terms of reference.

b) Please confirm this is the first utility benchmarking study in Ontario that PEG has examined each of Total Cost, Opex and Capex using separate Models.

c) Please explain why this scope was determined in this case. For example, was the Hydro Ottawa CPEF/CIRM proposal to escalate O&M but not Capital, a driver/consideration.

d) Is PEG now advocating separate benchmarking of O&M, Capital and Total Cost as Best Practice? Please discuss.

M-EP-2
Reference: Exhibit M, pages 20 and 21
Preamble: In its report PEG quotes the submission of OEB Staff on the OEB Staff on the EB-2015-0004 Settlement Proposal.

"Such asymmetry between the treatment of OM&A and capital expenses was not the intent of the Custom IR option. Instead, with the onset of the RRFE, the OEB has advocated comprehensive, total cost incentive rate-setting, on the grounds that it creates stronger and more balanced incentives. As has been argued elsewhere, including during RRFE consultations, an asymmetrical I-X framework applied to OM&A but not to capital may distort incentives, promote sub-optimal investments and alter a distributor's response to cost and revenue changes."

a) Does PEG agree with the OEB Staff submission? Please explain your answer.

b) Does the Hydro Ottawa's proposed Custom IR in the current case have balanced incentives for Capital and OM&A? Please explain your answer.

c) Does the proposed Custom IR plan provide an incentive for Hydro Ottawa to cut back on OM&A and increase spending on Capital? Please explain your answer.

M-EP-3
Reference: Exhibit M, Table 1, page 35

Preamble: The information in Table 1 indicates that old plans with a scale escalator terminated and were not replaced with new plans that had a scale escalator.

Is the use of scale escalators going out of favour? Please discuss.

M-EP-4
Reference: Exhibit M, Page 44
Preamble: *"Cost benchmarking should ideally be combined with reliability benchmarking to gain a balanced view of performance, and reliability performance is germane when considering requests for supplemental capex funding."*

a) Was PEG retained to either examine the Clearspring Reliability modelling and/or prepare an alternative model?

b) Has PEG examined the Clearspring Reliability Benchmarking evidence? If so, please provide your comments.

M-EP-5
References: Exhibit M, Page 47 and Table 3
Preamble: The following table which was prepared by Energy Probe compares the methods used by PEG with those used by Clearspring.

Parameter	**PEG**	**Clearspring EA**
Benchmark Year	1984	
Asset Price Deflator	50/50 average of the growth of HWI NE US and growth of the ICSD for the Canadian utility sector.	HWI Power Distribution Construction Costs in the Northeast US.
Material and Service price sub-index	Canada "GDP-IPI"	US GDPPI material and service price sub-index for the Ontario distributors
Labor price trend index	AWE of Ontario workers	US employment cost index -all of sample
OM&A input price index	Company specific cost share weights for Hydro Ottawa and the US distributors in the sample. The cost share weights for the other Ontario distributors fixed at 70/30.	
OM&A expenses	O&M grows at CPEF	O&M grows at CPEF
Service territory area	3rd scale variable	Included
Forestation variable	Replaced with % Plant Overhead x % Forested	Included forestation variable
Methodology	Benchmarked O&M Capital and Total Cost	Benchmarked Total Cost

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a) Please confirm that the information in the table is correct and that no relevant information is missing. If it is not correct, or if there is missing information, please file a similar table with the correct and complete information.

b) Please indicate directionally which of the PEG modifications to the methods
- increased the Hydro Ottawa Relative Total Cost Benchmark

- decreased the Hydro Ottawa Relative Total Cost Benchmark
- Please add any comments about relative magnitude of the change.

M-EP-6
References: Exhibit M, Page 55, Table 6, and Page 56, Figure 1.

a) Please provide a version of Figure 1 with the both the PEG and Clearspring Total Cost Benchmarks plotted.

b) For the CPEF/Custom IRM period 2021-2025, please comment on the differences and basis for these between PEG and Clearspring Total Cost projections.

c) Given that the Hydro Ottawa CPEF/CIRM formula does not include a Capital Factor, does this have implications for the Total Cost Benchmarks from Clearspring and PEG for 2021-2025? Please discuss.

M-EP-7
Reference: PEG report, pages 57 to 60

Do Figures 2 and 3 confirm that the 2016-2020 Custom IR Plan and the proposed 20121-2025 Custom IR plan encourage overspending on Capital and underspending on OM&A? Please discuss.

M-EP-8
References: Exhibit M, Page 58, Figure 2

a) Please confirm that based on PEG analysis per Figure 2, Hydro Ottawa OM&A has stabilized at the average Benchmark since 2018 and is projected to remain so in the 2021-2025 CPEF/IRM period.

b) What does this imply for the appropriate X- Factor and stretch factor?

c) How does the proposed Growth rate (G) affect the choice of an appropriate X and stretch factor?

M-EP-9
Reference: Exhibit M, Page 60

Preamble: *"The stretch factor should be based on the total cost of Hydro Ottawa's base rate inputs. The cost of the two major capex projects that the Company has taken should not be excluded."*

a) Please confirm that PEG finds that a 0.3% Stretch factor is appropriate with the two Capital projects included.

b) If the decision of Hydro Ottawa were to exclude one or both projects what would PEG recommend for the Stretch Factor(s)?

M-EP-10
Reference: Exhibit M, Page 63

Preamble: *"If the CPEF applies only to OM&A revenue, as proposed by Hydro Ottawa, our recommended CPEF formula is Inflation – 0.57% + G where the X factor is the sum of a 0.27% base OM&A productivity trend and a 0.3% stretch factor. If CPEF applies to all revenue (i.e., OM&A and capital) in a rate adjustment formula similar to what the OEB has approved for Hydro One and Toronto Hydro in 2019 decisions, we recommend a 0.30% X factor consisting of 0% base TFP trend and a 0.3% stretch factor."*

a) Have Board Staff requested PEG to examine a custom CPEF/IRM that encompasses Capital? If so what recommendation(s) does PEG have in this regard including the parameters in the CPEF.

b) If not, please confirm having considered potential modifications to the Hydro Ottawa CPEF, and provide PEG's recommendation for a comprehensive CPEF

M-EP-11
References: Exhibit M, Page 69, and Page 72

Preamble: *"It is also notable that the full funding of its capital cost growth which Hydro Ottawa proposes is more remunerative than that available under Price Cap IR. We noted in Section 2.2 that ACMs and ICMs feature a materiality threshold with a meaningful dead band before projected capital revenue shortfalls are funded."*

a) Given this expressed concern, is PEG recommending the Board impose a Price Cap with ICM/ACM?

b) If not, what other solutions dies PEG recommend for the Hydro Ottawa CPEF/CIRM? Please discuss and provide examples in order of practicality and comment whether these should be generic such as ICM/ACM in Rate Cap IRM.
- C Factor and S Factor
- X Factor Adjustment
- Alternative Capital Eligibility Restrictions
  Large Projects e.g. FRP and South Nepean MTS projects
- Exclude Capex in the last year of the IRM Plan term
- Incentivized Variance Account

c) Please comment how, in each case, the availability of a Capital in Service Variation Deferral Account and its disposition to ratepayers and the Company affects your recommendations.

M-EP-12
Reference: PEG report, Page 69

Preamble: "It is also notable that the full funding of its capital cost growth which Hydro Ottawa proposes is more remunerative than that available under Price Cap IR."

Based on PEG's analysis are there any reasons why Hydro Ottawa should have a rate plan that is more remunerative than that available under a Price Cap IR. Are Please discuss.

Respectfully submitted on behalf of Energy Probe by its consultants,

Roger Higgin
SPA Inc.

Tom Ladanyi
TL Energy Regulatory Consultants Inc.