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May 2, 2022

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, P.O. Box 2319
Toronto ON
M4P 1E4

Dear Ms. Marconi,

**RE: EB-2021-0110 – Hydro One Transmission and Distribution 2023-2027 Application
Energy Probe Interrogatories on the March 31, 2022, Evidence Update**

Attached are the interrogatories of Energy Probe Research Foundation (Energy Probe) in the EB-2021-0110 Hydro One Transmission and Distribution 2023-2027 rates proceeding on the Updated Evidence filed by Hydro One, dated March 31, 2022.

Submitted on behalf of Energy Probe by,

Tom Ladanyi
TL Energy Regulatory Consultants Inc.

cc. Martin Davies (OEB Staff)
Tracy Garner (OEB Staff)
Roger Higgin (Sustainable Planning Associates Inc.)
Regulatory Affairs (Hydro One Networks Inc.)
James James Sidlofsky (OEB Staff)
Intervenors of Record

Energy Probe Research Foundation 225 BRUNSWICK AVE., TORONTO, ONTARIO M5S 2M6

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Ontario Energy Board

IN THE MATTER OF the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 (Sched. B) (the Act);

AND IN THE MATTER OF an application by Hydro One Networks Inc., for an order or orders made pursuant to section 78 of the Act, approving or fixing just and reasonable rates for the transmission and distribution of electricity.

**Hydro One Networks Inc.
Joint Rates Application 2022-2027**

**Energy Probe Research Foundation
Interrogatories on Updated Evidence**

May 2, 2022

Energy Probe Interrogatories

O-Energy Probe-1

Reference: Exhibit O, Tab 1, Schedule 2, Page 7, Table 2

Preamble: *“Table 2 provides the inflation risk for the Top 10 Material and Service categories.”*

- a) Please position these 10 categories in terms of the Revenue Requirement starting with division into Capital Budget and OM&A Budget with a percentage for each category and the total as a percentage of the 2023 revenue requirement. Please provide this separately for Transmission and Distribution.
- b) Please confirm that the categories with “CPI risk” include current internal labour costs.
- c) Please provide the internal labour costs as a percentage of Total OM&A for each of Transmission and Distribution.

O-Energy Probe-2

Reference: Exhibit O, Tab 1, Schedule 2, Page 9

Preamble: *“Hydro One applied the Proration Factor of 1.0525 to all cost categories, effectively replacing the 2.0% annual inflation assumption with the revised inflation rates.”*

- a) Why was one proration factor used for all cost categories instead of using different factors for cost categories that are likely to be impacted differently by inflation such as employee compensation and construction materials?
- b) Were other methods of inflation adjustments considered? Please explain your answer.
- c) The proration factor is based in a single Scotiabank forecast. Please provide a proration factor based on the Q1 Consensus Forecast.
- d) Please provide a projection of the revenue requirements for Transmission and Distribution from 2023 -2027
 - i) using the Scotia based proration factor of 1.0525, and
 - ii) based on the Consensus Forecast.Please provide the Scenarios in Excel Format with explanatory notes

O-Energy Probe-3

Reference: Exhibit O, Tab 1, Schedule 2, page 31, Table 20 and page 32, Table 21

Please explain how why the inflationary increase in rate base for 2023 is being funded by a combination of Short-Term Debt, Deemed Long-Term Debt, and Equity and why the specific amounts of each were selected.

O-Energy Probe-4

References: Exhibit O, Tab 1, Schedule 1; Exhibit O, Tab 1, Schedule 4, Tables 1 and 2

Preamble: Hydro One is proposing deferring “inflationary” increases in the Revenue Requirement due to Capital and OM&A cost increases until 2028.

- a) Why is this an appropriate strategy? In responding for each of Transmission and Distribution, please take into account the future potential impacts, including carrying costs rate impacts (with and without amortization), intergenerational equity and retroactive ratemaking.
- b) Second reference shows the amount (ranges) of deferred annual revenue requirements from 2023 -2028 and the ending 2028 balance (Transmission and Distribution) based on Hydro One’s assumptions. Please provide this projection in Excel format.
- c) Please confirm that in O-1-4 Tables 1 and 2, the As-filed revenue requirements correspond to Tables 26-28.
- d) Please confirm if Hydro One is proposing that in effect, its overall 1.0525 proration factor replaces the 1.020 and 1.022 I-factors with a true up in 2028? Be clear about what is the RCI formula for the Custom IRM period.
- e) Will Clearspring modify its evidence and Benchmarks to include the 1.0525 proration factor? Please clarify.

O-Energy Probe-5

Reference: Exhibit O, Tab 1, Schedule 2, Page 17

Preamble: *“If the forecast inflation rates for 2022 and 2023 at the time of DRO are higher than the forecasts used in this evidence update (i.e. 4.5% for 2022 and 3.3% for 2023), then the following process is proposed:*

- *The revenue requirement will be updated to reflect the new inflation rate, but will not exceed a prescribed inflation cap (the “Inflation Forecast Cap”).*
- *Hydro One proposes an Inflation Forecast Cap of 10% cumulative inflation over 2022 and 2023. For clarity, a 10% cumulative inflation means the sum of inflation in 2022 and 2023 equals 10%. For example, inflation of 7.0% in 2022 and 3.0% in 2023 results in cumulative inflation of 10%.”*

- a) Please discuss why Ratepayers should take the risk of inflation exceeding the Hydro One forecast up to the 10% inflation cap.
- b) Under Incentive Regulation under RRFE, for Custom IR applications the Inflation Factor I, X factor and other parameters are set by the regulator at the outset of the plan. Please discuss why this should not be the case for Hydro One Transmission and Distribution for 2023-2027?
- c) If an RCI formula was to apply for 2023-2027. what would be a realistic I-X factor that shares the risks between ratepayers and shareholders. Please discuss.

O-Energy Probe-6

Reference: Exhibit O, Tab 1, Schedule 2, Page 30, Cost of Capital. Table 20: Exhibit 0-1-2 Attachment 7

Preamble: *“Hydro One proposes that the 2023 cost of capital parameters established at the time of the Draft Rate Order be used to determine the final revenue requirements for the 2023 to 2027 test years.”*

- a) Please confirm that Table 20 includes only the revised amounts from application of the proration factor of 1.0525.
- b) Please provide an updated cost of Capital Schedule showing 2022 base year as filed and 2022 -2027 updated Cost of Capital based on the Scotia Forecasts for issuance of Long-term and Short-term debt.
- c) Are ratepayers also expected to bear the risk of increases in debt issue costs as well as the increased capital requirements resulting from inflation. Please Discuss.

O-Energy Probe-7

Reference: Exhibit O, Tab 1, Schedule 2, Page 37, Tables 26, 27 & 28

Preamble: *“Below are updated tables which set out the calculation of the components of the Custom IR framework for Hydro One consistent with the calculations outlined in Exhibits A-04-02 and A-04-03.”*

- a) Please confirm that Table 26 corresponds to Table A-04-02 and Table 28 Corresponds to Table A-04-03.
- b) Please indicate the changes/drivers by providing a comparison to the as filed schedules and the basis (calculations and references).

O-Energy Probe-8

Reference: Exhibit O, Tab 1, Schedule 3, Page 3, Table 1

Preamble: *“The updated CDM forecast from the 2021 APO was reflected in Hydro One’s Transmission load forecast, which resulted in a lower net forecast for transmission charge determinants compared to the forecast used in the as-filed evidence as presented in Table 1 below.”*

- a) Why did Hydro One only update its Transmission Load forecast for CDM based on the IESO December 2021 Advanced Planning Outlook?
- b) The APO projects positive growth in most sectors, that directionally offsets the CDM impacts. Please discuss why selective updating was done.

O-Energy Probe-9

Reference: Exhibit O, Tab 1, Schedule 3, Page 9, Tables 6, 8 and 10

Preamble: *“Hydro One’s updated distribution load is shown in Table 6. The customer count forecast was not affected by the change in CDM.”*

- a) The IESO Update Shows Increased load growth in residential and other sectors. Why is Hydro One distribution not updating its distribution load forecast to account for both CDM (reduction) and growth (increase).
- b) If the IESO projection is correct, will Hydro One customers be paying higher rates than needed to recover the revenue requirement? Please discuss in detail.

O-Energy Probe-10

Reference: Exhibit E, Tab 6, Schedule 1, Attachment 2A (OEB Appendix 2K)

Preamble: EP wishes to see the impact of the Update on Staffing and Compensation Costs

Please update the referenced Schedule and provide a comparison for the 2023-2027 outlook period. Provide the result in pdf and Excel formats.

O-Energy Prob-11

Reference: No update reference: Pre-filed Evidence, Exhibit G, Tab 1, Schedule 2, Page 20: Exhibit G, Tab 1. Schedule 2, Attachment 10 CIVSA

Preamble: Energy Probe wishes to understand how the Capital In-Service Variation Account will work under the Deferred Revenue Requirement proposal.

Please reproduce the illustrative schedule in the second reference under the deferred revenue requirement proposal. Please discuss the result and differences between prior examples.

Respectfully submitted on behalf of Energy Probe by its consultants,

Roger Higgin
SPA Inc.

Tom Ladanyi
TL Energy Regulatory Consultants Inc.