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BY EMAIL

January 24, 2024

Nancy Marconi  
Registrar  
Ontario Energy Board  
2300 Yonge Street, 27<sup>th</sup> Floor  
Toronto, ON M4P 1E4

Dear Ms. Marconi:

**Re: Toronto Hydro-Electric System Limited (Toronto Hydro)  
2025-2029 Custom Rate Application for Electricity Distribution Rates and  
Charges  
Ontario Energy Board File Number: EB-2023-0195**

In accordance with Procedural Order No. 1, Ontario Energy Board (OEB) staff advises the OEB that staff plans to file expert evidence in this proceeding.

OEB staff have retained Pacific Economics Group Research LLC (PEG) to provide a report presenting PEG's review of the evidence prepared by Clearspring Energy Advisors (Clearspring) and UMS Group for Toronto Hydro with respect to the total cost and unit cost performance trends of Toronto Hydro. OEB staff have also retained PEG to provide PEG's review of the evidence prepared by Scott Madden Management Consultants (Scott Madden) for Toronto Hydro with respect to a jurisdictional review of modernized incentive regulation.

OEB staff note that the evidence of Clearspring is presented as the basis for the proposed stretch factor, net of the proposed performance incentive mechanism. In turn, it is the evidence of Scott Madden that is presented as the basis for Toronto Hydro's proposed new rate-setting framework, which relies heavily on cost forecasts and includes a performance incentive mechanism.

PEG's analysis will include a detailed review of Clearspring's report and working papers, and may include new analysis of historical and forecasted cost performance of Toronto Hydro and the comparator group of distributors. PEG may include its own data to expand the scope of comparator distributors. The expert will assess key aspects of Toronto Hydro's benchmarking study and provide commentary in the report.

PEG will also assess key aspects of Scott Madden's jurisdictional review of performance-based regulation. The expert will assess Toronto Hydro's proposed Custom Incentive Rate-setting (Custom IR) plan. The Custom IR plan will be assessed in the context of OEB policy and policies of other jurisdictions. The report will address the factors in the proposed Custom IR plan, including the performance incentives and the revenue cap proposal, providing commentary on Toronto Hydro's reports, discussing salient alternatives, and precedents from other jurisdictions, where relevant.

In addition, PEG staff will prepare interrogatory responses, assist with submission drafting, and attend any technical conference or oral hearing as necessary.

While there is a team of staff at PEG on this engagement, the principal whom OEB staff intend to offer as an expert witness is Dr. Mark Lowry, president of PEG. Dr. Lowry is an economist who has testified on matters of economic analysis, total and partial factor productivity analysis, cost benchmarking, and incentive regulation, in Ontario, Alberta, Québec, in U.S. jurisdictions, and internationally. Dr. Lowry and PEG have been involved in policy consultative processes and applications in Ontario for over 15 years. Of particular relevance is Dr. Lowry's evidence and testimony on similar total factor productivity and cost benchmarking analysis in three recent or relevant applications before the OEB:

- EB-2021-0110: Hydro One Networks Inc. 2023-2027 Custom Rate Application
- EB-2019-0261: Hydro Ottawa Limited 2021-2025 Custom IR Rate Application
- EB-2018-0165: Toronto Hydro-Electric System Limited 2020-2024 Custom IR Rate Application

Additionally, Dr. Lowry has testified on matters related to the theory and design of incentive regulation. Dr. Lowry's work has led PEG to be recognized as a leading expert in the field of incentive regulation, supporting both utilities and commissions in establishing or evolving incentive regulation frameworks. Most recently, PEG has participated in the following proceedings:

- Alberta Utilities Commission (AUC) Proceeding 27388: Third-Generation Performance-Based Regulation. As part of this proceeding, PEG played a prominent role in several issues relating to the design of the AUC's incentive regulation for electricity distributors.
- British Columbia Utilities Commission (BCUC): Review of British Columbia Hydro and Power Authority's Performance Based Regulation Report. As part of this proceeding, the BCUC retained PEG to prepare an independent report on the options regarding performance-based regulation, providing alternatives and case studies for the BCUC.

The estimated budget for PEG's work in preparing its evidence in this proceeding is approximately \$400,000, including the potential for matters such as interrogatory

responses, technical conference participation, submission drafting, and hearing attendance.

Any questions relating to this letter should be directed to Thomas Eminowicz at [Thomas.Eminowicz@oeb.ca](mailto:Thomas.Eminowicz@oeb.ca).

Thank you,

Thomas Eminowicz  
Senior Advisor

c: All intervenors, Toronto Hydro, Charles Keizer, Arlen Sternberg