



BY EMAIL and RESS

Mark Rubenstein
mark@shepherdrubenstein.com
Dir. 647-483-0113

Ontario Energy Board
2300 Yonge Street
27th Floor
Toronto, Ontario
M4P 1E4

May 9, 2024
Our File: EB20230195

Attn: Nancy Marconi, Registrar

Dear Ms. Marconi:

Re: EB-2023-0195– Toronto Hydro 2025-2029 – SEC IRs on OEB Staff Evidence

We are counsel to the School Energy Coalition (“SEC”). Enclosed, please find SEC’s interrogatories on OEB Staff’s evidence (Exhibit M1 and M3).

Yours very truly,
Shepherd Rubenstein P.C.

Mark Rubenstein

cc: Brian McKay, SEC (by email)
Applicant and intervenors (by email)

ONTARIO ENERGY BOARD

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

AND IN THE MATTER OF an Application by Toronto Hydro-
Electric System Limited for an Order or Orders approving or setting
just and reasonable distribution rates and other charges, January 1,
2025 to December 31, 2029.

INTERROGATORIES TO OEB STAFF

ON BEHALF OF THE

SCHOOL ENERGY COALITION

PEG, CIR 2.0 for Toronto Hydro-Electric System Limited Report

M1-SEC-1

[M1, p.21] PEG states: “Cost trackers can be incentivized mechanistically. For example, a portion of the variance between tracked costs and those already reflected in rates may be deemed ineligible for passthrough.” Please provide further details including an example of such an approach that could be used in this application.

M1-SEC-2

[M1, p.22] PEG states: “The second kind of UM for LREs is a volume driver. This is only available for a limited set of reinforcement projects on the secondary network including flexibility services and low voltage services reinforcements. With a volume driver, “Unit rates” (unit costs) and “volumes” (typically asset quantities) have been established for various kinds of LREs at the outset of the plan term. When actual volumes are known, allowed revenues for eligible cost categories are updated to equal the unit rate x actual required volume. Variances between the allowed and actual unit rates are shared with customers. Various metrics (e.g., transformer utilization) have been established to flag potential suboptimal investment. If the distributor does not meet the targets for the applicable metrics, it must submit additional information to justify the volumes deployed.²⁰ If the regulator is not satisfied that the expenditure was justified, it may reduce the volumes that are included in rates. There are also caps on the costs addressed by volume drivers.”

- a. Please provide further details regarding the “limited set of reinforcement projects on the secondary network including flexibility services and low voltage services reinforcements” to which this mechanism has been applied to. What capital programs/projects in Toronto Hydro’s application would be most similar?
- b. Please provide details regarding how “Variances between the allowed and actual unit rates are shared with customers.” If such a mechanism was applied in the current application, how would PEG propose it could work?

- c. Please provide further details regarding the “Various metrics (e.g., transformer utilization) have been established to flag potential suboptimal investment”. If such metrics were applied in the current application, how would PEG propose it could work?
- d. Please provide details regarding “caps on the costs addressed by volume drivers.” If such a cap were applied to the current application, how would PEG propose it be set?
- e. In the context of the referenced mechanism, or otherwise, please provide PEG’s opinion on Toronto Hydro’s response to interrogatory 9-SEC-129.

M1-SEC-3

[M1, p.26] Please provide details regarding the Ofgem “information quality incentive”. If such an incentive were applied to Toronto Hydro, how would PEG propose it could be done?

M1-SEC-4

[M1, p.26] Please explain how the California “Old School” approach would be applied to Toronto Hydro, including all necessary calculations.

M1-SEC-5

[M1, p.32] Please provide a copy of referenced PEG paper in The Electricity Journal.

M1-SEC-6

[M1, p.33] Please provide further details regarding the Duke Energy ARM, and if such an approach was applied to Toronto Hydro, how would be calculated?

M1-SEC-7

[M1, p.77-78] PEG states: “It should also be noted that the major changes to the rate framework that THESL proposes include the abandonment of indexing for OM&A revenue and variance account treatment of demand-related costs. Neither of these approaches are typical of utilities undergoing an energy transition.” Please explain the basis for PEG’s view that the changes Toronto Hydro proposes to the rate framework are not typical of a utility undergoing an energy transition.

M1-SEC-8

[M1, p.79] PEG discusses the Hawaiian Electric Company approved “Exceptional Project Recovery Mechanisms”. Please provide further details regarding the mechanism.

M1-SEC-9

[M1, p.81] As compared to its approved rate framework, does PEG believe Toronto Hydro’s proposed rate framework increases or decreases risk?

M1-SEC-10

[M1, p.83] Please explain in greater detail the referenced “double counting” issue, including by providing an illustrative example.

M1-SEC-11

[M1, p.87-93] PEG has provided a Straw Man alternative proposal for OM&A and capital revenue, please provide a step-by-step instruction, including all formulas, rules and criteria, required to implement the proposal for Toronto Hydro.

M1-SEC-12

[M1, p.90] With respect to customer growth:

- a. Please confirm that PEG’s customer growth term is equal to the percentage annual increase in the number of customers.
- b. If confirmed, please provide any analysis that shows that 1% increase in customer growth has or should equal 1% increase in OM&A spending.

M1-SEC-13

[M1, p.87-93] SEC understands PEG’s Straw Man alternative proposal for capital revenue to be based on Alberta’s K-Bar treatment.

- a. Please confirm that the K-Bar calculation in Alberta is based on net plant additions (i.e. in-service additions) and not capital expenditures.
- b. Please confirm that in the K-Bar calculation in Alberta, each of the historic 5-year net plant additions are escalated to the initial test year by using the AUC approved I-X formula for each year, plus a growth factor. The net additions for each subsequent year during the rate plan are similarly escalated by an approved/forecast approved I-X formula for each year, plus a growth factor.
- c. If part (a) and (b) are generally correct, please provide a revised version of Table 2, and all supporting calculations.

PEG, Statistical Cost Research for THESL’s New CIR Plan

M3-SEC-14

[M3, p.6] PEG references Clearspring’s comments during the Technical Conference that it had not updated its model with Toronto Hydro’s 2023 actual data, or investigate whether such an update was likely to be material.

- a. Please confirm PEG did not use 2023 actual data in its analysis.
- b. If confirmed, please provide PEG’s view of the directional impact of using 2023 actual data on both its and Clearspring’s benchmarking results.
- c. Please confirm PEG’s 2025-2029 forecast benchmarking results are based on Toronto Hydro’s updated forecast costs filed on January 29, 2024. If not, please update the benchmarking and TFP results.

M3-SEC-15

[M3] Please provide the following:

- a. Figures 1, 2, and 5 in a tabular format in Excel.
- b. Tables 8, 9a, 9b, 11a, and 11b in Excel.

M3-SEC-16

[M3, p.25] Please explain why Approach 4 in Figure 5 goes back to 2018, when the approach is about forecasting 2023 to 2029 change in skyscraper completions.

M3-SEC-17

[M3, p.25-26] PEG provides an analysis of the impact of its identified major concern with congested urban variable in the Clearspring model. Yet, no similar analysis has been provided for the other major concerns identified where it has provided a recommended model correction. For each of the following major concerns, please provide the individual impact of just making the PEG's correction:

- a. Area variable – full translog treatment as a scale variable.
- b. Area variable - incorrect service territory area value.
- c. Substation Data - data were not sufficiently cleaned and vetted.

M3-SEC-18

[M3, p.34-38] Based on PEG's benchmarking model, please provide for each year between 2025 and 2029:

- a. The percentage change in the benchmark total, capital and OM&A costs, for each 1% change in customers.
- b. The change in the benchmark total, capital and OM&A costs, for each 1% change peak demand.
- c. The change in the benchmark total, capital and OM&A costs, for every additional customer.
- d. The change in the benchmark total, capital and OM&A costs, for every 1 MW increase in peak demand.

M3-SEC-19

[M1, M3] In each of Toronto Hydro's last approved Custom IR plan, the OEB ordered the inclusion of an incremental stretch factor for capital of 0.3%. Toronto Hydro proposed rate framework eliminates this incremental stretch factor on capital. Please provide PEG's views on this aspect of Toronto Hydro's proposal.

M3-SEC-20

[M3, p.71] Please confirm that PEG's recommendation is an X-Factor of 0.70%, made up of .10% productivity factor/cost efficiency growth factor and a 0.6% stretch factor.

M3-SEC-21

[M3, p.71] PEG states: "We believe that a 0.10% base cost efficiency trend that is applicable to both the OM&A and capital revenue of THESL is conservative and reasonable." [emphasis added] What does PEG believe would be a non-conservative, yet still reasonable, base cost efficiency trend that could be applied to Toronto Hydro's OM&A and capital revenue.

M3-SEC-22

[M3, p.61-62] With respect to the relationship between the inflation and stretch factors:

- a. Please confirm that the National Grid annual stretch factor (i.e. consumer dividend) differs based on the annual inflation factor, which is based on US GDP PI measure. For example, the higher the inflation factor, the higher the stretch factor.
- b. Please provide PEG's view on scaling an assigned stretch factor to the annual inflation factor.

M3-SEC-23

[M3, p.61] Depending on the specific rate framework, the OEB's stretch factors (0% to 0.6%) is generally applied to the change in rates or overall revenue requirement. Those rates or revenue requirements include both embedded historic capital-related costs (i.e. capital related costs that had been undertaken in previous years) and are calculated on a revenue requirements or rates basis (as opposed to reduction against in-service addition costs). This explains why the stretch factors value are small. If the OEB were to approve a stretch factor that was only applicable to incremental costs undertaken in that year (i.e. capital in-service addition costs, and OM&A) what should the stretch factor range be?

Respectfully submitted on behalf of the School Energy Coalition, this May 9, 2024.

Mark Rubenstein
Counsel for the School Energy Coalition