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Ms. Nancy Marconi
Registrar
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

May 9, 2024

EB-2023-0195 – Toronto Hydro-Electric System Limited (Toronto Hydro) 2025-2029 Custom Rate Application
Pollution Probe Interrogatories on M1 PEG Evidence

Dear Ms. Marconi:

In accordance with OEB direction for the above-noted proceeding, please find attached Pollution Probe Interrogatories on M1 PEG Evidence.

Respectfully submitted on behalf of Pollution Probe.

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EB-2023-0195

ONTARIO ENERGY BOARD

Toronto Hydro-Electric System Limited
2025-2029 Custom Rate Application

POLLUTION PROBE INTERROGATORIES
For M1: PEG EVIDENCE

April 9, 2024

Submitted by: **Michael Brophy**

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Consultant for Pollution Probe

M1-PP-1

Please confirm if PEG is aware of any other utilities or regulators leveraging the following as proposed by Toronto Hydro:

- The new Custom Incentive Rate-Setting ("CIR") framework (in part or whole).
- The proposed attrition relief mechanism ("ARM") (in part or whole)
- The Demand Related Variance Account (DRVA) (in part or whole)

M1-PP-2

Reference: However, several regulators have balked at using ARMs that rely heavily on cost forecasts and variance accounts. Cited problems include high regulatory cost, utility abuse of information asymmetries to pad cost forecasts, and weakened cost containment incentives. [M1 Evidence Page 6]

a) Please identify mitigation measures or controls that have been (or could be) successfully leveraged to resolve the potential risk of ARMs mechanism abuse.

b) Please discuss any interplay between application of Toronto Hydro's proposed ARM and the proposed performance incentive mechanism (PIM), including funding and delivery of the (PIM) scorecard deliverables over the term.

c) Would the recent CIR period under-earnings profile for Toronto Hydro be a relevant factor to consider (vs. a utility that consistently over-earned through the term which may represent a tendency toward abuse)? Please explain.

M1-PP-3

Reference: The Company forecasts plant additions in the next five years that are well in excess of its high recent historical norms. [M1 Evidence Page 6]

a) Toronto Hydro has outlined its rationale for increased capital spending over the term which includes investments that could decrease costs in the future and enable important component of the energy transition (e.g. DERs). One of the challenges is that OEB approval of the plan and related framework/budgets would not guarantee that those outcomes are delivered over the term since the OEB is not prescriptive on where Toronto Hydro must spend actual capital and O&M over the term. What mechanisms, metrics or other tools could be considered to tangibly link delivery of those specific outcomes with the proposed budget/framework?

b) With the acceleration of the energy transition, electrification and Net Zero by 2040 in Toronto, there is a risk that delaying enabling infrastructure until the next rate term would be too late to take the necessary actions. How are these risks managed or mitigated in the alternate proposal put forward by PEG?

M1-PP-4

Reference: Revenue decoupling can reduce the sensitivity of utility earnings to demand-side management, DERs, and demand volatility. [M1 Evidence Page 11]

a) Please explain how this could work in the case of Toronto Hydro and how it differs from what was proposed by Toronto Hydro.

b) Please provide your opinion on the mechanism or other tools that the OEB could leverage to maximize Toronto Hydro's focus and related system/customer net benefits of demand-side management and DERs.

M1-PP-5

The Toronto Hydro demand forecast is Gross, which means that the benefits of things like DERs has not been included and is not tracked over the term. Toronto Hydro is also not incented (or penalized) to maximize these net benefits. Please provide feedback on how this could be addressed through the 2025-2029 term.

M1-PP-6

Reference: The most popular focus of new policy PIMs is peak load management (e.g., IL, NC, NY, WA). To date, PIMs for peak load management have rewarded performance on various metrics that include achieved peak load reductions, successful implementation of non-wires alternative projects, and encouraging customer enrollment in time of use rates (this sometimes crosses over with PIMs for the use of AMI). [M1 Evidence, Page 46]

a) Please provide copies of the referenced peak load management scorecards and/or metrics which could be considered in the Ontario context.

b) Please explain why peak load management PIMs have become popular for regulators and the benefits that are expected to accrue.

c) Please confirm that the Toronto Hydro PIM scorecard does not include 'peak load management' metrics.

d) Please identify what metrics should be added to the Toronto Hydro scorecard if the OEB wanted 'peal load management' included.

M1-PP-7

Toronto Hydro has included metrics on the PIM scorecard that are ‘must do’ in order to meet the needs over the term.

a) Please confirm that the metrics and targets included in the PIM scorecard submitted by Toronto Hydro do not represent ‘stretch’ objectives.

b) Please confirm that PIM scorecards typically reward achieving ‘stretch’ (i.e. incremental to baseline) objectives.

c) What changes would PEG recommend to the PIM scorecard in order to represent ‘stretch’ objectives?