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January 9, 2011

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli,

RE: EB-2010-0002 - Comments the Building Owners and Managers Association of the Greater Toronto Area and the London Property Management Association on the Final Revenue Requirements

These are the comments of the Building Owners and Managers Association of the Greater Toronto Area ("BOMA") and the London Property Management Association ("LPMA") on the January 5, 2011 letter entitled 'EB-2010-002 - Hydro One Networks' 2011-2012 Electricity Transmission Revenue Requirement - Final Revenue Requirement & Charge Determinants in Accordance with Decision' which provides a number of exhibits which form the Draft Rate Order ("DRO").

BOMA & LPMA have reviewed the exhibits and documentation in the DRO that provide the explanations of all calculations and assumptions used in deriving the amounts used in the in the exhibits and believe that all of the calculations provided by Hydro One are reasonable and correctly interpret the Board findings, with the three exceptions listed and described below. The adjustments made by Hydro One associated with each of these exceptions may well be correct. However, the level of detail in the documentation provided does not appear to be sufficient to allow for a conclusion that the adjustments are correct.

1. HST Adjustments

The HST adjustments are summarized on Exhibit 1.9 (Continuity of Revenue Requirement). The total impact of the adjustments is a reduction in the revenue requirement of $7.2 million in 2011 and $10.5 million in 2012. The composition of these amounts is shown for the amounts related to OM&A, depreciation, return on debt, return on common equity and income tax. BOMA & LPMA note that these figures match (with the exception of $0.1 million difference in 2012 probably due to rounding) with the figure provided on page 40 of the Hydro One Reply Submission dated November 11, 2010. In that Reply Submission, Hydro One indicated that it had revised its estimates of the impacts associated with the HST to be $7.2 million and $10.4 million in 2011 and 2012 respectively and that the revised impact was due to reductions in OM&A, depreciation, and return on rate base, together with an increase in income tax. Hydro One did not, however, provide the detailed calculations that resulted in these revised figures. Moreover, at page 17 of the Reply Submission, Hydro One indicates in footnote 9 that the "HST impact will be re-estimated as necessary and will be fully detailed in the Draft Final Rate Order". BOMA & LPMA does not believe the information provided by Hydro One in the DRO accomplishes this.

BOMA & LPMA are concerned that the calculation of the rate base impact is not provided in sufficient detail as to allow for a conclusion that they properly implement the Board findings in this area. The impact on the return on debt and the return on equity components of the HST related adjustments shown in Exhibit 1.9 are directly related to the change in rate base.

The change in rate base and in capital expenditures associated with the change in the HST are also shown in Exhibit 1.9. Capex was reduced by $39.2 million in 2011 and $30.6 million in 2012. The impact on rate base is shown as reductions of $26.7 million and $53.3 million, respectively for those years.

It is not clear to BOMA & LPMA whether or not these rate base reductions include the reduction in rate base noted by the Board on page 23 of the December 23, 2010 Decision with Reasons and provided here for ease of reference:

> "BOMA/LPMA and VECC also noted that the effect of the introduction of the HST is to reduce the working capital amounts from $7.1 million to $0.8 million in 2011 and from $5 million to $3.4 million in 2012. These intervenors argued that the reductions in working capital should also flow through to customers.
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> In reply argument, Hydro One agreed to pass on the savings to customers by reducing the test year revenue requirement. Hydro One submitted that a variance account was not required, arguing that it would not be able to determine the auditable difference between the estimated and actual impacts given the fundamental difference between PST and HST and the significant volume of transactions which are affected."

First, BOMA & LPMA note an error in this statement noted above. The reduction in 2012 is from $5.0 million to **($3.4)** million, not $3.4 million.

The confusion arises because the change in the HST related to OM&A and capital expenditures are not the only changes related to the HST that impact on rate base. Changes in capital expenditures have a direct impact on capital expenditures which flow directly through to rate base and depreciation. Changes in OM&A related to the removal of the HST have a direct impact on rate base through the cash working capital. Hydro One has calculated this change in Exhibit 1.2 (Rate Base and Depreciation). BOMA & LPMA have specific comments related to this adjustment which are noted below in section 2.

However, there is another direct impact of the HST on rate base that is part of the cash working capital calculation. This impact is shown in Exhibit D1, Tab 1, Schedule 3 and the response to VECC in Exhibit I, Tab 4, Schedule 41. Specifically, the calculation of the GST/HST (Benefit) Cost is shown in Table 2 of both exhibits noted above. In the original evidence the 5% GST resulted in a reduction to rate base of $3.5 million in 2011 and $4.1 million in 2012. In the VECC response, the 13% HST resulted in a reduction to rate base of $9.6 million in 2011 and $12.7 million in 2012, or incremental reductions from that originally filed of $6.1 million in 2011 and $8.6 million in 2012. It is these reductions that BOMA & LPMA cannot determine are included in the DRO. A review of Exhibit 1.2 shows amounts of $7.1 million and $5.0 million in cash working capital were used in the original evidence. These amounts are inclusive the GST at 5% reductions to rate base noted above. Exhibit 1.2 shows a line entitled "Adjustment for HST (includes working capital) that reflects the $26.7 million reduction in rate base for 2011 and the $53.3 million reduction for 2012, which are the same figures as shown in Exhibit 1.9.

BOMA & LPMA submit that it would be useful for Hydro One to provide the detailed calculations associated with the derivation of the $26.7 million and $53.3 million reduction in 2011 and 2012 rate base, respectively. These adjustments appear to reflect more than just the change in capex related to the removal of the HST, but it is not clear to BOMA & LPMA that they reflect the changes related to the cash working capital from moving from the 5% GST included in the original evidence to the 13% HST included in the response provided to VECC.

2. Cash Working Capital Changes Related to OM&A Changes

As shown in Exhibit 1.2 of the DRO, Hydro One has calculated the working capital changes associated with the changes in OM&A to be ($0.7) million in 2011 an $10.8 million in 2012. These adjustments are based on the ratio of working capital to OM&A. This working capital includes materials and supplies inventory as well as the cash working capital, which itself is made up of OM&A, removal costs, environmental remediation costs, interest on long term debt, income tax and the HST (Exhibit D1, Tab 1, Schedule 3).

BOMA & LPMA submit that the methodology used by Hydro One overestimates the impact on the cash working capital by including non-OM&A components of the cash working capital calculation.

It is further submitted that a more accurate way to estimate the impact on the cash working capital related to OM&A changes to calculate the ratio based only on the OM&A components of the cash working capital calculation. In particular, as shown in

Tables 1 and 2 of Exhibit D1, Tab 1, Schedule 3, the OM&A expenses have a direct impact on the cash working capital of $17.5 million in 2011 and $18.0 million in 2012. Adding in the OM&A related GST component of $0.7 million in each of 2011 and 2012 results in total OM&A related cash working capital of $18.2 million in 2011 and $18.7 million in 2012. These figures represent 4.2% of the OM&A expenses in each of those years. Applying 4.2% to the $13 million reduction in OM&A costs shown in Exhibit 1.2 of the DRO results in a reduction to the 2011 rate base of $0.5 million instead of the $0.7 million calculated by Hydro One. Similarly, applying the 4.2% ratio to the $182.2 million increase in OM&A expenses for 2012 results in an increase in rate base of $7.7 million in place of the $10.8 million calculated by Hydro One.

3. AFUDC Adjustment

As shown in Exhibits 1.2 and 1.9, Hydro One has reduced the capex for 2011 and 2012 by $3.1 million and $2.1 million, respectively, for the reduction in AFUDC. These figures match the figures noted by the Board at page 31 of the Decision with Reasons for the 2011 and 2012 test years.

However, as noted on page 30 of the Decision with Reasons, the Board also noted that the AFUDC for the 2010 bridge year is $6.4 million lower than that included in the forecast. BOMA & LPMA believe that the Board findings on AFUDC imply that the reductions noted for the 2011 and 2012 test years and the 2010 bridge year were to be reflected in the DRO.

It does not appear to BOMA & LPMA that Hydro One has adjusted the capex or the rate base for either of the test years to reflect the reduction of $6.4 million in AFUDC in the 2010 bridge year. If BOMA & LPMA are correct, then it is submitted that a further reduction of approximately $6.4 million to the rate base for each of 2011 and 2012 is required to coincide with the Board findings. If BOMA & LPMA are incorrect and Hydro One has reflected this reduction, it is not clear where this reduction is shown in the DRO.

Summary

BOMA & LPMA accept the Hydro One calculations with the exception of the three areas described above. In each case, the Hydro One calculations may be correct and justified, but BOMA & LPMA do not believe that sufficient detail has been provided to arrive at this conclusion. It is submitted that Hydro One should provide the additional detail that would either show the calculations reflect the adjustments that BOMA & LPMA suggest are appropriate or a rationale for deviating from these suggestions.

Yours very truly,

Randy Aiken

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c.c. Anne-Marie Reilly (Hydro One - e-mail only)
Intervenors (e-mail only)