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Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
Suite 2700
Toronto, Ontario, M4P 1E4

Dear Ms. Walli:

**Re: EB-2010-0377 – Distribution Network Investment Planning - Comments on Staff Discussion Paper of the London Property Management Association**

These are the comments of the London Property Management Association ("LPMA") with respect to the above noted Staff Discussion Paper. Comments have organized around the questions for stakeholder written comment.

**1. Are there elements of the Code, the GEA Filing Requirements and the Benefits Framework that require further alignment to promote, for example, the consistent categorization of investments for all regulatory purposes related to network planning?**

LPMA submits that further alignment would assist in the regulatory review process. Currently there does not appear to be any consistent approach to the categorization used by distributors. This is similar to the issue of distributors using different accounts to record OM&A expenses for virtually the same expenditures used by different distributors. This make comparisons among distributors difficult, if not impossible.

However, LPMA notes that each distributor is unique, not only in relation to how investments have taken place in the past, but also in how they will propose to evolve their distribution systems to take into account the amount and location of load growth, renewable energy growth and the need to replace aging infrastructure. Not only are the distributors unique; there is also a level of difference between distribution engineers and planners that could result in different solutions to the same issues.

Overall, LPMA believes that clearer definitions of the investment categories related to network planning for all regulatory purposes would be valuable, but stresses that differences may still exist and that these differences may well be justified by the difference in the distributors and their planning perspectives.

**2. Are there elements of the CoS Filing Requirements and the GEA Filing Requirements that could be further harmonized, having regard to the fact that both address facets of a distributor's overall network plan?**

LPMA supports the extension of the three year forecast of capital expenditures currently stipulated in the CoS Filing Requirements to a minimum of five years. In addition, there should be a five year outlook for the impact of the capital expenditure forecast on such items as line losses, repair & maintenance costs, renewable energy attachments and the associated reduction in transmission costs. In addition a 5 year forecast of energy and demand should be used to support the capital expenditure forecast. In short, a business case analysis needs to be included in support of the 5 year forecast filed in a CoS application.

LPMA further submits that there should be a sensitivity analysis provided to support the capital expenditure forecast so as to determine whether the proposed plan, including that of the test year, is the optimal timing in terms of meeting the needs of customers and mitigating the impacts on rates.

**3. What are the merits and key challenges of pre-establishing network investment assessment processes and corresponding filing requirements based on criteria involving the characteristics of the proposed investments?**

LPMA does not see any merits of pre-establishing network investment assessment processes and corresponding filing requirements based on criteria involving the characteristics of the proposed investments. As noted earlier, distributors are unique based on historical factors and will likely be unique going forward, based on different levels of customer growth, renewable energy connections and replacement of aging infrastructure.

Not only will these aspects be unique for each distributor, but within each distributor there will be unique circumstances such as where the load growth or the renewable generation connections will be. If this coincides with an area that needs to be replaced because of aging infrastructure, the total cost will be less than if the load growth and/or renewable connections are in a area - outside of the part of the system that needs to be replaced because of age - that would not need to be upgraded/changed in the absence of these issues. These are key challenges that will vary by distributor to distributor.

**4. Should the Board consider mechanisms, such as an incentive-based approach to information filings, to promote network planning filings that achieve a requisite degree of quality?**

LPMA does not believe that an incentive-based approach to information filings should be used. Distributors should be required, as part of their licence requirements and/or rate approval process to provide the requisite degree of quality in network planning filings. There is no need to "reward" a distributor for doing what is necessary for them to continue to have the privilege to provide a monopoly service. In this age of austerity it is inappropriate to provide an incentive to anyone to do what they are already being well paid to do. Customers do not like to pay twice for work being correctly and efficiently once.

**5. Are there elements of the GEA Filing Requirements related to qualitative investment planning information that can be usefully adapted for CoS Filing Requirements purposes?**

It is submitted that all information on consultations with other parties should be provided to support investment plans. This information should include alternatives considered and why they were ultimately not selected.

More emphasis should also be provided that shows how each individual project fits into the larger regional plan (if applicable) or into the longer term plan of the distributor. This would include an analysis that would demonstrate that the project is part of the most cost efficient long term plan.

**6. What are the best ways qualitative information can be used by a distributor to demonstrate the economic efficiency and cost effectiveness of their proposed network investments and should such methods differ depending on investment category or purpose?**

LPMA does not believe that there is a generic way to demonstrate the best way that qualitative information can be used by a distributor to demonstrate the economic efficiency and/or cost effectiveness of a proposed network investment. Each project and each distributor has some level of uniqueness that needs to be taken into account when qualitative information is used to demonstrate economic efficiency and cost effectiveness of proposed investments. Alternatives to the investment proposed can be different for similar projects of different distributors and can be different for similar projects in different areas within the same distributor. The specific circumstances of each project need to be taken into account and explained as part of the qualitative information provided to help justify the need for the project.

**7. Are there quantitative analyses that should be required in respect of planned network investments and therefore included in the CoS Filing Requirements?**

Yes. LPMA supports the inclusion of a cost-benefit analysis in the CoS Filing Requirements for distributors similar to that provided in the Transmission Filing Requirements. The provision of "what-if" scenarios is a critical element that should be included in the requirements. This "stress test" of the assumptions used in the business case supporting a proposed project provides stakeholders with valuable insight into the potential outcomes that can add support for a project or detract from the viability of the project. In either case, this information would assist parties in determining whether a project should proceed as proposed and should be part of the filing requirements. This has been standard practice the natural gas industry in the province for decades.

**8. In general and/or specifically in relation to the PA Model: what are the merits and potential weaknesses of using information on the potential direct and indirect bill impacts of proposed network investments for regulatory assessment purposes?**

The most significant potential weaknesses that LPMA sees in the estimating the potential direct and indirect bill impacts of proposed network investments for regulatory assessment purposes include the following.

First, there is an issue of how the bill impacts will be estimated. For example, how will the OM&A impacts of a proposed network investment be estimated and how will this be verified after the fact.

Second, as further discussed below, what is the consequence of forecast error in estimating the potential direct and indirect bill impacts? In other words, what happens if the forecast is wrong?

The merits of using information on the potential direct and indirect bill impacts of proposed network investments for regulatory assessment purposes is that it provides the potential impact on customers. However, the merits are only as good as the information used and the accuracy of the estimated bill impacts.

**9. What are the merits and potential weaknesses of using estimates of direct and indirect bill impacts for network investment planning purposes (e.g. project selection; program configuration; scenario analysis)?**

LPMA believes that network investment planning should be a bottom up exercise. In other words, projects should be identified based on requirements and/or need to do them. These projects should be prioritized and the timing of the projects should reflect the potential need to mitigate bill impacts, while maintaining acceptable levels of service.

Using estimates of direct and indirect bill impacts for network planning purposes on a top down basis would not be appropriate, in the view of LPMA. This may result in over building some years and under building in others. While stable rate increases are desirable, this should not result in ratepayers paying more than is required (i.e. over building in some years) or facing potential service deterioration (i.e. under building in some years).

**10. What are the key issues to consider when determining whether and if so in what form information on estimated direct and indirect bill impacts should be included in filing requirements?**

One of the key issues that needs to be considered is the accuracy of forecast information used to estimate the direct and indirect bill impacts beyond the test year. Stakeholders are well aware of the difference between test year forecasts and actual results for that year. Forecast errors are magnified beyond the test year and grow significantly the longer the forecast horizon.

Forecasts for the level, type and timing of capital expenditures can change significantly over a relatively short period of time since they are influenced by individual customers (both load and generation), the economic climate, changes in technology, and last but not least, changes in government policy and directives.

On top of this, there is the issue of forecast impacts on OM&A of replacing aging infrastructure with new equipment. The level of the reduction in repair and maintenance costs is often debatable, as is the length of time that these reductions occur. New technologies are also often more susceptible to failure, resulting in shorter lives than may have originally been estimated. New technologies are often more expensive to fix than the existing technology.

A third layer of forecasting inaccuracy is the load forecast (both kWh and kW). While loads may be relatively easy to forecast within a certain level of accuracy, the long term results can deviate substantially from the forecast due to the compounding effect of annual differences that carry over from one year to the following years. Load and demand forecasts also implicitly assume that customers will behave the same in the future as they did in the past. Again, in the short-term this is probably true, but it is less likely to be true in the longer-term.

A second key issue is what is the consequence of the estimated direct and indirect bill impacts on customers are found to be inaccurate? If the investment(s) has already been made, and the bill impacts are found to be significantly out of line with what happens (for example, the actual capital expenditures are higher than estimated, the expected life of the investment is shorter than expected, OM&A savings are lower or shorter-lived than expected and/or the load forecast was too optimistic), what is the impact, if any, on rates?

If there is no consequence, then LPMA submits that providing such bill impacts is a futile exercise as it would provide no value whatsoever. Long-term forecasts can be significantly altered through subtle changes to provide a wide range of outcomes.

On the other hand, if there are consequences then LPMA submits that such an exercise would be of value. For example, if the forecasted bill impacts were set at the ceiling of what could be recovered in the bills regardless of what the actual impacts turned out to be if they were allowed to be passed onto customers, then this forecast exercise has some value. This approach, however, would likely be cumbersome from a regulatory perspective. In order to cap the bill impacts of individual projects, the revenue requirement associated with the project (rate base, OM&A, taxes, depreciation, etc.) would almost have to treated as a separate component of rates, much like how smart meters have been treated prior to their inclusion in rate base.

A third key issue as seen by LPMA is how the indirect bill impacts would be calculated by individual distributors. The indirect bill impacts are likely to be more influenced by the combined aggregate impact of all other distributors, transmitters and government policy than they would be by the distributor in question. In other words, much of the indirect bill impact is beyond the control of the distributor. Depending on the total bill impacts that are found to be acceptable, this may impose constraints on the distributor of the direct bill impact that it can have. In turn, this may limit the distributor in the number of projects that it can do. This is likely to be a significant problem for small and medium sized distributors, as the indirect bill impacts will be most heavily influenced by the larger distributors.

If the indirect bill impacts of only the distributor are taken into account, then the rate increase to be shouldered by customers may be beyond what the Board intended when this process was initiated. Customer bills are not only impacted by what their distributor does, but, in theory, by what all distributors, transmitters, and governments do through the indirect impact on their bills. LPMA notes that the distribution rates (direct impact) are typically a small portion of a customer bill, meaning that the other charges (indirect impact) have a greater impact on customers.

**11. Should the Board consider mechanisms that would help ensure the network planning policy framework is regularly informed of network investment outcomes and planning process developments?**

Yes, of course. Any planning policy framework that is not regularly informed of the outcomes and planning process developments could become irrelevant. Like the distribution system itself, the planning policy framework is not static but is evolving.

Sincerely,

*Randy Aiken*

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