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February 1, 2017

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli,

RE: EB-2016-0160- Submissions of London Property Management Association

Please find attached the Submissions of the London Property Management Association ("LPMA") in the above noted application.

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates

cc: Applicant and Intervenors (by e-mail)

EB-2016-0160

Hydro One Networks Inc. Transmission

Application for electricity transmission revenue requirement and related changes to the Uniform Transmission Rates beginning January 1, 2017 and January 1, 2018

SUBMISSIONS
OF
LONDON PROPERTY MANAGEMENT ASSOCIATION

February 1, 2017

I. INTRODUCTION

Hydro One Networks Inc. ("Hydro One") applied to the Ontario Energy Board ("Board") for approval of its 2017 and 2018 transmission revenue requirements to be used to set the 2017 and 2018 Uniform Transmission Rates ("UTR") effective January 1 of each year on May 31, 2016.

Hydro One is forecasting a rates revenue requirement of $1,487.4 million for 2017 and $1,558.4 million for 2018 (Exhibit A, Tab 3, Schedule 1, Updated 2016-12-02). This represents an increase of 0.5% over the Board approved rates revenue requirement for 2016 and a further increase of 4.8% in 2018. Combined with the requested load impact forecast of 2.1% in 2017 and no change for 2018, the resulting rate increase requested for approval in this application is 2.6% in 2017 and 4.8% in 2018.

Hydro One is also requesting, among other things, the approval of the charge determinants used to set the UTRs effective January 1, 2017, a proposed performance scorecard, the continuation of certain regulatory accounts, the disposition of regulatory deferral and variance accounts and the continuation of the export transmission rate of $1.85.

The following are the submissions of the London Property Management Association ("LPMA") on the issues of concern to its members. LPMA has had the opportunity to

review the submissions of Board Staff ("Staff") filed on January 25, 2017 and, in general, supports those submissions.

LPMA notes that Hydro One has emphasized that the total bill impact on customers is relatively small, at 0.1% in 2017 and 0.2% in 2018 for a Hydro One general service customer and similar increases for a Hydro One medium density residential customer.

LPMA submits that these increases are somewhat misleading given that Hydro One's distribution rates are significantly higher than other distributors. This means that the total bill impact for customers not served by Hydro One Distribution will be higher than this amount.

LPMA further submits that the total bill impact is not an appropriate calculation in estimating or conveying the impact on ratepayers. The true impact on ratepayers is the 2.6% increase proposed for 2017 and the 4.8% increase proposed for 2018 on the transmission portion of a ratepayer's bill. The total bill impact ignores the impact of different changes in distributor rates and in the cost of the electricity. Ratepayers are tired of being misled as to the increases that regulated entities are requesting by hiding the impacts in a total bill impact that is inaccurate at best and misleading at worst.

One overarching concern that LPMA has is the tendency for Hydro One to provide forecasts that favour the shareholders over ratepayers. As will be discussed throughout these submissions, Hydro One has historically over forecast its OM&A expenses, depreciation costs and capital additions to rate base while at the same time under forecasting its load revenue. In all four cases, these forecasting tendencies result in higher rates than required.

Member Thompson asked whether Hydro One takes LDC customers rate increase fatigue into account for transmission planning (Tr. Vol. 4, pg. 176). LPMA submits that LDC customers are tired of utilities over forecasting costs and capital additions while under forecasting revenues that lead to higher rates than needed.

As shown in the response to Exhibit I, Tab 2, Schedule 30, Hydro One over earned by more than 300 basis points in the 2012 through 2015 period. In 2016, the level of over earning is expected to be in the neighbourhood of 250 basis points (Tr. Vol. 1, pages 85-86) based on third quarter results.

The response to Undertaking J12.3 provides a breakdown of the over earnings for 2012 through 2014. A review of the table provided in the responses shows positive impacts on the level of earnings for all years for each of OM&A, capital (depreciation and in-

service) and weather. There is not one single instance of a negative impact on the level of earnings provided in the table. In other words, the cards were stacked against ratepayers from the beginning.

The impact on rates paid by customers is significant. Based on the response to Undertaking J12.4, the impact on ratepayers of 100 basis points of return on equity is about $57 million. This means, based on the over earnings of more than 1500 cumulative basis points over the 2012 through 2016 period – based on the response to Exhibit I, Tab 2, Schedule 30 and page 85-86 of Volume 1 of the Transcript (both noted above) – is that ratepayers have contributed more than $865 million in excess earnings to Hydro One, much is which is related to over forecasting costs and capital additions and under forecasting revenues. LPMA submits that the Board needs to hold Hydro One much more accountable for its forecasts that only seem to benefit the shareholder at the expense of ratepayers. Ratepayers have received no value for this excess money they have paid.

LPMA notes that Hydro One has requested rates be effective January 1, 2017. LPMA submits that the Board should deny this request and make rates effective the first day of the month following the Board Decision and approval of the rate order. There should be no recovery of any shortfall from the beginning of 2017 to the implementation date.

Hydro One did not file its evidence until the end of May, 2016 and should have known that with only seven months to the end of the year, it would be almost impossible to have rates in place for January 1, 2017. In fact, LPMA submits that Hydro One should have filed several months earlier than it did in order to get new rates implemented for January 1, 2017.

Ratepayers have been very clear on the issue of retroactive rates, whether changes are made retroactively for energy already consumed, or through rate riders that collect foregone revenues based on future consumption. In either case, ratepayers do not want to pay for past consumption based on rates that were not in place at the time consumption took place. The onus is on the utility to ensure a timely filing is made in order to have new rates in place when requested. LPMA submits that Hydro One failed to meet this onus.

In the recent EB-2015-0072 Decision and Order dated August 18, 2016 for Grimsby Power Inc., OEB staff submitted that 266 days is the established metric to issue a decision and rate order after an application is filed and an oral hearing is held. Grimsby filed its application on December 23, 2015. As a result OEB staff submitted that the appropriate effective date for 2016 rates was September 1, 2016.

Under the Findings heading (page 11) of the August 18, 2016 EB-2015-0072 Decision and Order the Board stated:

> *The OEB approves September 1, 2016 as the effective date of Grimsby Power's 2016 rates. The OEB finds that the delay in filing the application was within Grimsby Power's control and sufficient time must be allowed for the OEB's open and transparent rate setting process. The OEB finds that September 1, 2016 is appropriate given the date of this Decision and the time provided for the rate order process.*

LPMA submits that the same outcome is appropriate for Hydro One as the circumstances are virtually identical to that of Grimsby Power.

II. SUBMISSIONS

The submissions provided below are based on the main topic headings of the approved Issues List. If a specific issue is not addressed, LPMA has no specific concerns with the Hydro One proposals related to those issues.

A. General

LPMA submits that the customer engagement undertaken by Hydro One is adequate insofar as it related to its directly connected transmission customers. With respect to the customer engagement with the local distribution companies, LPMA submits that the Board should view any such engagement through a different lens.

In the EB-2015-0089 Decision and Order for Milton Hydro Distribution Inc. dated July 28, 2016, the Board found that customer tolerance for a rate increase does not justify excessiveness (page 35). The Board indicated that reliance on the willingness of customers to accept a distribution rate increase was misplaced and that a distributor must satisfy the Board that its proposed OM&A budget was compatible with performance based outcomes that customers value. In short, customer tolerance for a rate increase does not justify a budget that is incompatible with these outcomes.

LPMA submits that the same standards should apply to a transmission company and should apply to all costs, not just OM&A budgets.

With respect to the engagement with local distribution companies, LPMA notes that any increase in costs is not to the account of the distributor. Rather, the increase in costs is a pass through costs to the ultimate end use customers. Local distributors are likely to want

improved reliability, since it is the distributor that has to explain why the lights are not on. At the same time, the distributor can blame increasing rates on the cost of electricity and the cost of transmission. Given the poor and opaque breakdown of costs on the customer bill mandated by the province, ratepayers are most often at a loss to figure out why their rates are increasing and who is getting the extra money.

LPMA submits that the Board should take any customer engagement between Hydro One and local distribution companies with a grain of salt. Distributors do not pay for any rate increase proposed by Hydro One.

LPMA submits that the Board should require Hydro One Transmission to have meaningful customer engagement with customers who actually pay the transmission bill. This means directly engaging with the customers of distribution companies. The engagement, if it is to be meaningful, must be with the entities that pay the bill, not only with the entities that simply pass on the costs to others.

Finally, LPMA agrees with the Staff submission on the timing of the engagement.

B. Transmission System Plan

i) Planning Process

LPMA has reviewed the submissions of Staff with respect to transmission planning and adopts those submissions. In addition, LPMA is aware of the concerns with the planning process that will be in the submissions of the Consumers Council of Canada. LPMA shares those concerns.

ii) Proposed Reduction to Capital Budget

LPMA has reviewed the submissions of Staff with respect to their proposed reductions to the level of capital expenditures and agrees with those submissions.

In particular, LPMA submits that Hydro One has not properly paced its sustainment spending investments. Like Staff, LPMA submits that the level of spending in the test years on tower recoating and on stations can be significantly reduced and deferred to future years without any significant near-term risk to reliability through more appropriate pacing. This will also allow Hydro One to improve its planning process in the interim period before filing its next rates application.

ii) Tendency to Over Forecast Capital Additions

LPMA has done an analysis of actual in-service capital additions compared to the Board approved levels over the 2007 through 2015 period. LPMA did not include 2016 data in the analysis since the actual in-service additions for the bridge year are not yet available and as the following table illustrates, Hydro One does not have a good record of spending to the Board approved levels.

IN-SERVICE CAPITAL ADDITIONS ($ millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average
Actual	489.8	408.5	661.3	843.2	791.8	1,199.5	703.8	914.5	699.1	745.7
Board Approved (1)	490.8	577.8	794.1	937.8	834.4	1,591.9	784.2	1,023.1	821.3	872.8
Variance	-1.0	-169.3	-132.8	-94.6	-42.6	-392.4	-80.4	-108.6	-122.2	-127.1
% Variance	-0.2%	-29.3%	-16.7%	-10.1%	-5.1%	-24.6%	-10.3%	-10.6%	-14.9%	-14.6%

Source: Exhibit I, Tab 3, Schedule 47 & EB-2012-0031, Exhibit I, Tab 11, Sch. 1.03, Staff 52

Notes: (1) In the response to Exhibit I, Tab 3, Schedule 47, Hydro One shows the Board Approved in-service capital additions for 2014 as $863.3 million. However, this was the bridge year forecast used in EB-2014-0140 used to determine rate base for the 2015 and 2016 test years. The actual Board approved in-service additions for 2014 in EB-2012-0031 was $1,023.1 million.

As the above table illustrates, Hydro One has had nine consecutive years where the actual in-service capital additions have failed to meet the Board approved figures. It should be noted that in many cases, the Board approved figures already reflected reductions from the requested in-service additions based either on reductions agreed to in settlement agreements or imposed directly by the Board.

The actual amount closed to rate base ranges from $1.0 million less than Board approved to more than $390 million less. Over the 2007 through 2015 period, the average shortfall compared to the Board approved additions is more the than $127 million, or 14.6% of the Board approved amounts.

LPMA submits that this constant and persistent over forecasting of capital additions closed to rate base has cost ratepayers millions upon millions of dollars for assets that do not exist. Not only do ratepayers pay a return on equity and a cost of debt associated with these phantom assets, they are also paying PILS/income taxes generated from assets that only exist for Board approved purposes of setting rates.

Based on a weighted average cost of capital of 6.20% for the 2017 test year (Exhibit A, Tab 3, Schedule 1, Updated 2016-12-02), LPMA estimates that the cost of capital including income taxes is approximately 7.5%. The $127 million average annual shortfall in capital additions compared to the Board approved amounts is about $9.5 million per year, ignoring the half year rule. Given the two year rebasing cycle used by

Hydro One, the impact on the first test year is about $4.75 million, while the cumulative impact on the second test year is about $14.25 million when the impact of the half year rule is included.

An even larger impact on rates is the recovery of depreciation expenses that do not actually occur. As discussed in Part D (ii) below, the actual depreciation expense incurred by Hydro One has averaged more than $25 million below the Board approved level included in rates over the 2012 through 2016 period. This is mainly due to the continued and persistent over forecasting of in-service additions.

Based on their historical inability to reach the Board approved in-service capital additions, LPMA submits that the Board should reduce the capital additions forecast for both test years based on the average over forecast of the past, as illustrated in the above table.

Hydro One is forecasting in-service capital additions of $931.4 million in 2017 and $1,209.7 million in 2018 (Exhibit D1, Tab 1, Schedule 2). Applying the 14.6% derived in the above table would result in reductions of $136.0 million in 2017 and $176.6 million in 2018.

LPMA notes that in the above table the variance between actual and Board approved in-service additions for both 2008 and 2012 is in excess of 20%. If both of these years are removed from the calculation of the average, the average shortfall in in-service capital additions falls from $127.1 million to $83.2 million and the corresponding percentage declines from 14.6% to 10.2%. Application of this lower percentage to the proposed in-service capital additions in 2017 and 2018 would result in reductions of $95.0 million in 2017 and $123.4 million in 2018.

LPMA submits that based on this recent past history, a reasonable level for reductions in in-service capital additions is $95.0 to $136.0 million in 2017 and $123.4 to $176.6 million in 2018. Although not directly comparable (in-service additions vs. capital expenditures), these reductions are roughly in line with the submissions of Staff.

As indicated elsewhere in this submission, LPMA submits that the stuffing of the revenue requirement needs to end whether it is related to the over forecasting of in-service capital additions, depreciation expenses or OM&A costs.

iii) Niagara Reinforcement Project

Hydro One has indicated that it wishes to continue to recover an amount for "AFUDC for recovery on Niagara Reinforcement Project" (Exhibit E2, Tab 1, Schedule 1) of $4.6 million in 2017 and $4.5 million in 2018 (Exhibit A, Tab 3, Schedule 1, Updated 2016-12-02, Table 3). The background on this project, including how the amounts have been included in rates in the past, is provided on page 32 of the Staff submission and will not be repeated here.

LPMA submits that the Board should remove this cost to ratepayers beginning in 2017. As noted in the Staff submission, Hydro One has been recovering these costs in rates for 10 years and yet there does not appear to have been any real progress made in resolving the land claim issue over this period.

LPMA agrees with Staff that the time has come for the Board to disallow this cost. As noted by Staff, the principle that underlies this submission is that regulated utilities are required to face some risk in their business operations. They are compensated for this risk through a generous return on equity. No utility should have an expectation of a guaranteed recovery of costs related to capital expenditures that have not and may never result in used or useful assets. Like Staff, LPMA submits that there should be no further recovery of costs associated with this transmission line until it goes into service.

If the Board determines that some compensation should continue, then LPMA submits that the compensation should be based on a short-term interest rate instead of through the weighted average cost of capital. LPMA also submits that the Hydro One would be more motivated to resolve the land claim or come up with alternate routing options or ownership options if it could no longer recover its financing related costs through rates.

C. Productivity Improvement and Performance Scorecard

LPMA supports the submissions of Staff with respect to the performance scorecard.

LPMA notes that the Board requires continuous improvement as part of the RRFE. As such, Hydro One will be required to find new and innovative ways to keep costs down while increasing, or at least maintaining, performance metrics. Hydro One has identified some productivity improvements it has made historically and has built these cost savings into the forecast for the test years. However, LPMA submits that Hydro One has not built in any additional savings associated with new methodologies or approaches which it will be undertaking during the test years. In other words, there are still savings to be had in the costs forecast by Hydro One.

Performance scorecards have been used by the Board for several years now. LPMA has seen a disturbing trend with respect to the use of those scorecards. In general, most utilities have met the performance standards set by the Board, where applicable, and have met their internal standards. What concerns LPMA, however, is how this information is being used to influence ratepayers.

If a utility is meeting all or most of its targets, it tells customers that it will have to spend more to maintain those targets. This is done without any evidence of any sort to support this assertion. On the other hand, if a utility is not meeting its performance targets, it uses that situation to justify the need for additional costs. Of course, there is never any guarantee that spending more will result in the targets being met. In most cases targets that reflect the increased spending are not even provided. In other words, from a ratepayer point of view, it does not appear to be any relation between the amounts spent historically and amounts to be spent in the future and the level of performance achieved. At some point the utility (and the Board) will have to demonstrate to ratepayers that the cost increases were justified and provided value to customers.

D. Operations Maintenance & Administration Costs

i) OM&A Expenses

LPMA has had the opportunity to review the submissions of Staff with respect to OM&A expenditures. LPMA adopts the submissions of Staff with respect to the expected decline in OM&A costs as capital spending increases, the corporate management cost increases, and the increasing total compensation costs.

In particular, LPMA submits that a reduction of about $12 million in each of 2017 and 2018 for an expected decline in sustainment OM&A costs as capital spending increases is appropriate to reflect the linkage between sustainment capital spending in the past and OM&A expenditures in the future. Hydro One has failed to take this linkage into account.

Similarly, LPMA submits that the reductions of $3.5 million in each test year for corporate management and $1 million in 2017 and $2.2 million in 2018 for communications is appropriate. These increases are the direct result of the IPO and provide no value to ratepayers.

LPMA agrees with the submissions of Staff that a more comprehensive record of total compensation, including a refined methodology for splitting compensation costs and employee counts between the two regulated businesses would be helpful to all parties,

including the Board. LPMA submits that the Board should direct Hydro One to file such information as part of the next transmission application.

With respect to the reductions proposed by Staff related to compensation and the rationale for those reductions, LPMA agrees with the proposed reduction of $12.5 million in each test year based on the deterioration in performance of Hydro One based on the results shown in the 2016 Mercer Study and the additional reduction of $6.3 million in each test year for the executive level staff with compensation above the P50 level.

With respect to the Long Term Incentive Plan ("LTIP") Staff have submitted that these costs, which are based on the achievement of scorecard outcomes such as earnings per share, should be removed from the revenue requirement because such metrics do not reflect the outcomes that customers value, such as low rates, high reliability and good customer service.

While LPMA agrees with the direction of the Staff submission, it also believes that the achievement of earnings per share targets can also be the result of productivity improvements and cost avoidance, both of which benefit ratepayers in the long term. This ultimately should result in lower rates, high reliability and good customer service. At the same time, however, the achievement of earnings per share targets can and does benefit the shareholder and this can be achieved without any increase in customer value. For this reason, LPMA submits that 50% of the LTIP costs associated with the CEO and CFO should be included in the revenue requirement and paid for by ratepayers, with the remaining 50% paid for by shareholders. LPMA believes that this is an equitable sharing of these costs.

While LPMA supports the submissions of Staff on each of the components noted above, LPMA believes that there is probably an overlap to some degree in the proposed reductions. For example, some of the compensation reductions may be double counted in the proposed reductions to corporate management costs and in the reduction related to sustainment OM&A.

Staff has also made submissions related to consistent OM&A spending less than approved levels. LPMA does not support those submissions, as it believes that the adjustment of about $15 million for each test year is too small.

Rather than comparing actual OM&A spending to the Board approved levels as Staff did, LPMA submits that a more relevant comparison is between the actual spending and the spending applied for. In addition, LPMA notes that Staff used the 2012 to 2016 period,

but failed to include in the comparison the most recent 2016 estimated actual expenditures provided in Undertaking J12.1.

LPMA has expanded the period of analysis to 2010 through 2016, including adjustments in 2013 and 2014 to reflect one-time payments that were reflected as reductions in OM&A expenditures.

The following table provides the Applied For OM&A amounts in each of 2010 through 2016, the Board Approved figures for each year and the Actual expenditures. Two calculations are then provided: the Actual vs. Applied For difference and the Actual vs. Board Approved difference. The Average column provides the 2010 through 2016 average of each line and the Percent column shows the difference as compared to the Applied For average amount.

COMPARISON OF OM&A EXPENDITURES ($ millions)

		2010	2011	2012	2013	2014	2015	2016	Average	Percent
Applied For		449.7	436.3	450.0	453.3	459.7	451.2	456.8	451.2	
Board Approved		426.2	418.8	427.2	440.0	449.8	431.2	436.8	434.0	
Actual (1)(2)		420.8	414.4	415.1	431.4	410.5	441.6	420.7	422.3	
Actual vs. Applied For		-28.9	-21.9	-34.9	-21.9	-49.2	-9.6	-36.1	-28.9	-6.4%
Actual vs. Board Approved		-5.4	-4.4	-12.1	-8.6	-39.3	10.4	-16.1	-11.7	-2.7%
Sources:	Exhibit I, Tab 13, Schedule 25 & Undertaking J12.1 & EB-2014-0140, Exhibit I, Tab 2, Schedule 8									
Notes:	(1) 2013 actual has been increased by $43 million to reflect one-time property tax rebate									
	(EB-2014-0140, Exhibit I, Tab 2, Sch. 8)									
	(2) 2014 actual has been increased by $11 million to reflect $11 insurance payment									
	(EB-2014-0140, Exhibit I, Tab 9, Sch. 2, Att. 1)									

LPMA submits that the above table highlights a number of things. First, over the last six years, the actual OM&A expenses (with 2013 and 2014 adjusted for one-time payments) have exceeded the Board approved level only once. Even taking that into consideration, the actual OM&A expenditures have averaged $11.7 million or 2.7% below the Board approved level.

Second, when compared to the applied for amounts, which LPMA submits is more relevant, the actual OM&A expenses have been below the applied for amounts in each and every year over the last six years, and in only one of those years was the difference in the single digits in millions of dollars (2015).

The average under spend over the 2010 to 2016 period was $28.9 million or 6.4% of the applied for amounts. LPMA submits that this reflects more than just a tendency to over forecast OM&A expenditures. It represents a built in bias to over forecast that has resulted in six consecutive years of transmission rates that have over recovered OM&A

costs from ratepayers. The Board approved reductions in the OM&A expenses over this period have helped reduce this bias, but as shown in the above table, those reductions were still not large enough to eliminate this bias.

Hydro One has not provided any evidence that there has been any change in the methodology used to derive the OM&A forecast for the 2017 and 2018 test years. In fact, with respect to the common corporate costs perspective, Hydro One indicated that nothing materially has changed in the process (Tr. Vol. 11, pg. 181). Hydro One has and continues to provide itself with a large safety net in order to be able to exceed its Board approved return on equity by forecasting OM&A expenses at a level that it never reaches.

Hydro One has applied for OM&A costs of $412.7 million in 2017 and $409.3 million in 2018. LPMA submits that the Board should reduce both of these figures by 6.4%, the average percent by which Hydro One has under spent the applied for figures over the 2010 through 2016 period. These reductions amount to $26.4 million in 2017 and $26.2 million in 2018. It is time for the safety net to be ripped away and for Hydro One to make money the old fashioned way….by earning it.

ii) Depreciation

In addition to the OM&A expenses, this general heading in the issues list includes the issue of whether or not the depreciation expense for 2017 and 2018 are appropriate. LPMA submits that the depreciation forecast, like the OM&A forecast, is systematically biased in favour of the shareholder, at the expense of the ratepayers.

As the following table illustrates, the depreciation and amortization expense on an actual basis has been less than the Board approved amounts for each year in the 2012 through 2016 period. Please note that the 2016 "actual" expense is equal to the bridge year forecast as originally filed in Exhibit C1, Tab 7, Schedule 1, Tables 1 and 2 and is based on the response to Exhibit I, Tab 4, Schedule 16 that there was no material change in the forecast for the bridge year. Without the inclusion of the 2016 data, the average over forecast would be even higher than that calculated in the table.

COMPARISON OF DEPRECIATION & AMORTIZATION ($ millions)						
	2012	2013	2014	2015	2016	Average
Actual	320.0	326.3	346.9	366.0	387.0	349.2
Board Approved	341.7	353.5	380.8	393.9	403.4	374.7
Variance	-21.7	-27.2	-33.9	-27.9	-16.4	-25.4
% Variance	-6.4%	-7.7%	-8.9%	-7.1%	-4.1%	-6.8%
Sources:	Exhibit I, Tab 4, Sch. 15 & Exhibit TCJ1.10 & Exhibit C2,					
	Tab 3, Sch. 1					

Similar to the over forecasting of OM&A expenses, Hydro One has consistently over forecast the depreciation expense over the 2012 through 2016 period as compared to the Board approved figures. This over forecasting amounts to $25.4 million on average over this period or 6.8%.

In the response to LPMA TCQ 3 in Exhibit TCJ1.10, Hydro One states that the variances noted in depreciation and amortization expense relative to the Board approved figures are mainly due to lower in-service additions over this period, with some additional impacts related to asset removal costs and environmental expenditures.

LPMA submits that these are the only sources of the variance, given that Hydro One has indicated that it uses the same depreciation methodology for accounting, regulatory and planning purposes and that it uses the half year rule for calculating depreciation in the year that an asset is placed into service (Exhibit I, Tab 4, Schedule 17). In other words, regardless of when an asset is placed into service in any given year, the amount of depreciation recorded is the same.

Asset removal costs and environmental expenditures represent less than 10% of the total depreciation and amortization expense in the 2012 through 2016 period (Exhibit C1, Tab 7, Schedule 1, Tables 1 and 2).

LPMA submits that the depreciation variance is, therefore, primarily the result of lower in-service additions than approved by the Board. This has resulted in ratepayers paying more than $25 million per year for an expense that did not materialize. Like the OM&A bias, the depreciation variance has been consistently in favour of the shareholders at the expense of the ratepayers.

Based on the consistent over estimation of the depreciation and amortization of expense by Hydro One in the 2012 to 2016 period, LPMA submits that the Board should reduce the applied for depreciation and amortization expense of $435.7 million in 2017 and

$470.7 million in 2018 by 6.8% in each year. This percentage is the average level of over forecasting in the 2012 to 2016 period shown in the above table. This would result in a reduction in the 2017 and 2018 test year expense of $29.6 million and $32.0 million, respectively. Again, LPMA submits that the Board should remove this safety net that Hydro One has built into the revenue requirement.

iii) Income Taxes

LPMA has no concerns with the calculation of income taxes as proposed by Hydro One. However, LPMA is making submissions with respect to the Initial Public Offering ("IPO") tax benefits that were the subject of a significant amount of cross-examination at the hearing.

As a result of the IPO, Hydro One lost its tax exempt status and became subject to the departure tax of $2.6 billion. Hydro One is not requesting recovery from ratepayers of any portion of this departure tax.

A deemed disposition of the assets of Hydro One occurred immediately prior to losing the tax exempt status. This revalued the assets to their fair market value for tax reporting purposes but does not impact on the accounting book value of the utility or on the rate base used for regulatory purposes.

The deemed disposition has also resulted in a deferred tax asset, which is essentially the difference between the tax value of the assets and the accounting book value of the assets. This deferred tax asset can be used in the future to reduce taxable income by allowing Hydro One to claim higher capital cost allowance deductions in the calculation of future taxable income.

Hydro One has excluded both the cost of the departure tax and the future benefits associated with the deferred tax asset from the calculation of the revenue requirement. LPMA submits that this is appropriate and should be approved by the Board.

In particular, LPMA submits that the exclusion of the cost and the benefit follows both the stand-alone principle and the principle that benefits follow costs.

LPMA submits that the IPO was a shareholder decision has nothing to do with the operation of the regulated utility and has no impact on the provision of services to ratepayers. The stand-alone principle insulates ratepayers such that only the costs from activities related to the provision of regulated services to ratepayers are included in the revenue requirement of the regulated utility. Based on the stand-alone principle, LPMA

submits that the departure tax is recoverable from the shareholders and not from ratepayers.

The benefits follow costs principle dictates that any benefits that occur as a result of costs incurred should flow to the party that paid for the cost. The deferred tax benefit occurs because of the IPO and the shareholders have paid the cost of the departure tax that resulted from the IPO. LPMA submits that since Hydro One incurred the cost of the departure tax and has not proposed to recover this cost from ratepayers, the benefit of the deferred tax asset should also be to the account of Hydro One.

iv) Pension and OPEBS

LPMA agrees with the submissions of Staff that the Board should not make a final determination on whether pension and other post-employment benefits ("OPEBS") costs should be included in the revenue requirement on a cash or accrual basis.

Hydro One has indicated that it uses a cash based methodology for pension costs and an accrual based methodology for OPEBS (Exhibit I, Tab 1, Schedule 131). LPMA does not oppose the inclusion of these costs using the methods currently employed by Hydro One, but also believes that the establishment of a variance account that tracks the difference between the cash and accrual methods for the test years is needed. The need for this account is discussed in Part G below.

E. Rate Base & Cost of Capital

LPMA submits that Hydro One has over forecast the net plant in service component of rate base based on the submissions noted above that the capital expenditures and in-service capital additions included in rate base should be reduced for projects that can be delayed and because of Hydro One's tendency to forecast in-service additions that are higher than actually achieved.

LPMA submits that the working capital component and materials and supply inventory component of rate base is acceptable and that the lead lag study undertaken is also acceptable.

With respect to the cost of capital, Hydro One updated the return on equity and cost of short term debt to reflect the cost of capital parameters released by the Board on October 27, 2016 for rates effective January 1, 2017 in the December 2, 2016 update to their evidence. As part of that update Hydro One also updated its forecast weighted average

long term debt rate based on actual debt issued and an updated forecast for debt to be issued in 2017.

Hydro One proposes to update the return on equity and the cost of short term debt in accordance with the Board's formulaic approach for 2018 and will also update the cost of long term debt with the actual rates at the same time. This approach is consistent with past Board approved practice in EB-2012-0031 and EB-2014-0140.

LPMA submits that the Board should approve the proposals with respect to the cost of capital for both 2017 and 2018.

F. Load Revenue Forecast

As noted in Table 3 of Exhibit A, Tab 3, Schedule 1, Updated 2016-12-02, the vast majority of the rate increase required of 2.6% in 2017 is due to the estimated load impact of 2.1%. The load impact accounts for more than 80% of the required rate increase.

Hydro One has provided a comparison of historical Board approved forecast as compared to the actual weather corrected figures in Table 6 of Exhibit E1, Tab 3, Schedule 1. In that table, the average error over the last five forecasts for the line and transformation connection billing determinants has been small and both reflect years in which the forecast has been higher than actual and lower than actual. The same cannot be said, however, for the network billing determinants.

As shown in Table 6, the network forecast has been below the actual for each and every one of the five forecasts shown and on average, the network forecast has been below actual by more than 0.7%. LPMA further notes that based on the current Uniform Transmission Rates, the network revenue for Hydro One makes up approximately 60% of the total load revenue forecast.

LPMA submits that the network billing determinant forecast is a conservative forecast and is likely to underestimate the actual weather corrected demand, as it has done so for five consecutive forecasts. LPMA further submits that it is no coincidence that this billing determinant has been continually under forecast given that it is the biggest contributor to Hydro One transmission revenues. This is just another part of the safety net that Hydro One provides to its shareholders at the expense of its ratepayers.

LPMA submits that the Board should increase the network billing determinants by 151 MW in both 2017 and 2018. This is the result of increasing the network forecast of 20,405 MWH in 2017 and 20,410 MWh in 2018 (Exhibit E1, Tab 3, Schedule 1, Table 4)

by 0.74%. Based on the current network rate of $3.66/kWh, this would increase revenues in both test years by about $6.6 million.

G. Deferral/Variance Accounts

Hydro One has calculated the balances in the regulatory accounts for disposition as of December 31, 2016 to be $95.6 million (Exhibit F1, Tab 1, Schedule 1, Table 2). Hydro One proposes to dispose of this amount through a reduction to the rates revenue requirement of $47.8 million in each of the two test years (Exhibit F1, Tab 1, Schedule 3).

LPMA submits that the amounts and disposition periods are appropriate, assuming the new transmission rates are effective January 1, 2017. If the Board were to determine that a later effective date for rates was appropriate, then LPMA submits that the disposition period should be adjusted to match the remaining number of months between the effective date and the end of December, 2018.

Hydro One proposes to continue all but one of the existing deferral and variance accounts. LPMA supports the continuation of the accounts as proposed by Hydro One, with one exception.

The exception is the In-Service Capital Additions Variance Account. While LPMA submits that the account should be continued, it is unclear to LPMA whether the account as proposed by Hydro One would include only the impacts of the net cumulative variance over 2017 and 2018 between the Board approved in service capital additions and the actual amounts, or whether it would also take into account the variance between the amount forecast in this application for the 2016 test year ($911.7 million as shown in Table 1 of Exhibit D1, Tab 1, Schedule 2). In the response to Exhibit I, Tab 4, Schedule 46, part (b), Hydro One indicated that the account would only track the variance in in service additions for 2017 and 2018 and not 2016 as the 2016 amount would be double-counted.

The current in-service capital additions variance account covers the net cumulative variance between the Board approved and actual amounts for the period 2014 (the bridge year) and 2015 and 2016 (the test years in EB-2014-0140). Hydro One has indicated that if the cumulative in service additions are lower than the Board approved amount, it will record a balance in this variance account and the balance will be sought for disposition in the next transmission rate application (Exhibit F1, Tab 1, Schedule 1, page 13).

LPMA submits that the new account should reflect the same wording as the current account, with the exception that the years covered by the account would be updated. In particular, as shown in EB-2014-0140, Section II, Appendix D, the wording for the 2014-2016 version of the account is:

> *To record the impact on 2015 and 2016 Transmission Revenue Requirement due to the difference between the Board approved in-service capital additions and the actual capital in-service additions in 2014, 2015 and 2016.*

LPMA submits that the wording and intent of the account should stay the same, with 2014 changed to 2016, 2015 to 2017 and 2016 to 2018. The inclusion of the 2016 bridge year is essential because any variance in in-service additions in the bridge year has more of an impact on the calculation of rate base in both of the test years of 2017 and 2018 than does the in-service additions in the test years.

LPMA does not agree with Hydro One that the inclusion of 2016 in both the current and proposed variance accounts would amount to double counting. The current account only deals with the period up to the end of 2016. The proposed account resets the starting point to zero and deals with the impact on the 2017 and 2018 revenue requirement and by definition, the variance in the bridge year forecast versus actual will have an impact on both test years. If the Board were to exclude the impact of the bridge year in-service additions in the account, then if Hydro One's actual in-service additions are less than the $911.7 million that is built into the calculation of rate base in 2016, 2017 and 2018, Hydro One could automatically be in a position to over earn in both test years even if in-service additions in both test years came in at or under the Board approved levels. Clearly this is not the intent of the variance account.

Hydro One proposes to discontinue the LDC CDM and Demand Response Variance Account. According to Hydro One, the IESO no longer provides an estimate of the actual peak savings to which the forecast amount included in the load forecast can be compared. Given this, LPMA supports the discontinuance of this account. However, this assumes that the Board adjusts the load forecast as discussed elsewhere in this submission. If the Board determines that no adjustment to the load forecast is required, then LPMA submits that the Board should direct Hydro One to continue this account for 2017 and 2018 and use a best efforts basis to obtain the necessary CDM actual information from the IESO in order to calculate the variance in the account.

LPMA has reviewed the submissions of Staff with respect to the need for a variance account to track the difference between the cash and accrual amounts for pensions and OPEBS. LPMA submits that regardless of whether the costs included in rates are based

on a cash or accrual basis, there is a potential for the generic consultation (EB-2014-0040) to result in a different basis for inclusion. The variance account can then be used to adjust for any difference in the amount included in rates and the amount that should be included based on the outcome of the generic consultation.

H. Cost Allocation

Other than the charge determinants that are the result of the load forecast discussed above, LPMA has no issues with the Hydro One cost allocation. Given the immateriality of the cost associated with the wholesale meters, LPMA submits that the Hydro One proposal to simplify the allocation process by eliminating the wholesale meter rate pool and allocating the rates revenue requirement into the three remaining rate pools - Network, Line Connection and Transformation Connection - is acceptable.

I. Export Transmission Service Rates

As part of Hydro One's 2015/2016 transmission rates application (EB-2014-0140) for the purpose of reaching a settlement, all parties agreed to an export transmission service ("ETS") rate of $1.85/MWh for 2015 and 2016. Hydro One has proposed to maintain this rate through the 2017 to 2018 period.

LPMA submits that increasing rates to ratepayers in Ontario while leaving rates for the ETS fixed at existing rates is not equitable. The increase in costs faced by Ontario ratepayers is mainly the result of inflation in OM&A costs and sustainability capital expenditures. LPMA believes that both of these factors should result in an increase to the ETS, just as it will have an impact on the UTRs.

LPMA submits that the Board should increase the ETS rate from the current level of $1.85/MWh to $1.86/MWh in 2017 and to $1.95/MWh in 2018. This would reflect the rate increase required, excluding the load forecast, for Ontario ratepayers, as shown in Table 3 of Exhibit A, Tab 3, Schedule 1, Updated 2016-12-02.

In particular the increases proposed by LPMA would reflect the 0.5% increase in 2017 and the 4.8% increase in 2018. If the Board were to approve increases that differ from these amounts, then LPMA submits that the resulting rate increases required to service Ontario ratepayers should be applied to the ETS. This would ensure that domestic rates and export rates share the increase in costs.

III. COSTS

LPMA requests that it be awarded 100% of its reasonably incurred costs. LPMA worked with other intervenors throughout the process to limit duplication while ensuring that the record was complete. LPMA's key areas of concern were fully addressed through the evidence, interrogatory responses and technical conference question responses, along with cross-examination by other parties. This eliminated the need for LPMA to extend the hearing by doing separate cross-examination.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

February 1, 2017

Randy Aiken
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