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September 20, 2018

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-2016-0003 – Revised Proposed Amendments to the Transmission System Code and the Distribution System Code to Facilitate Regional Planning - Written Comments of LPMA

Please find attached the written comments of the London Property Management Association ("LPMA") in the above noted policy consultation.

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates

WRITTEN COMMENTS
OF
LONDON PROPERTY MANAGEMENT ASSOCIATION

A. INTRODUCTION

The Ontario Energy Board ("OEB") issued a Notice of Revised Proposal to Amend a Code on August 23, 2018 related to the Revised Proposed Amendments to the Transmission System Code and the Distribution System Code to Facilitate Regional Planning.

The following are the comments of the London Property Management Association ("LPMA") with respect to the proposed revised amendments to the TSC and DSC. The comments generally follow the outline provided in part B of the Notice of Revised Proposal to Amend a Code ("Notice") provided in the August 23, 2018 letter.

B. REVISED PROPOSED AMENDMENTS TO THE TSC AND THE DSC

LPMA has provided comments on each of the six sections listed in the Notice.

1. PROPOSED TSC AMENDMENTS: APPROACHES TO 'APPORTION' TRANSMISSION CONNECTION INVESTMENT COSTS TO THE NETWORK POOL (sections 6.3.18A and 6.3.18B of TSC)

LPMA supports the beneficiary pays principle. As a result, LPMA supports the inclusion of generator customers in the proportional benefit concept so that all transmission customers are treated the same and pay their fair share.

LPMA continues to support the need for an adjudicative process to determine the appropriate apportionment. It is unlikely that any two situations will be exactly the same when it comes to determining the benefits and how the associated costs should be apportioned to a different mix of customers. In the future, LPMA believes there may be an opportunity for the OEB to provide guidelines that would cover many of the common situations that may arise. Until then, the adjudicative process is the best approach to deal with what is likely in many cases to be a contentions issue among parties. LPMA also notes that the adjudicative process provides transparency and eliminates the prospect of perceived back room deals.

LPMA does not support the limiting of the type of benefits used in the assessment of the benefits. At the same time, LPMA believes that any such benefits should be identifiable, quantifiable and material. LPMA further believes that any such benefits should be verifiable. Benefits, or potential benefits, are likely to vary from one project to another. LPMA believes that the proposed benefits that result from a project should be brought forward in an application and justified through the adjudication process.

LPMA continues to support the allocation of the broader system benefits to the network pool and not to the connection pool. As noted earlier, LPMA supports the beneficiary pays principle and the use of the network pool is more closely aligned with this principle.

2. PROPOSED TSC AND DSC AMENDMENTS: APPROACHES TO 'APPORTION' UPSTREAM TRANSMISSION CONNECTION INVESTMENT COSTS – UPSTREAM TRANSMISSION CONNECTION INVESTMENTS – TREATMENT OF EMBEDDED DISTRIBUTORS AND LARGE LOAD CUSTOMERS (section 3.2.4A of DSC, new section 6.3.20 in TSC)

While LPMA is supportive of the proposed change in the 3 MW to 5 MW threshold for a large customer as being appropriate, LPMA remains concerned that there may be unique circumstances where a customer below the 5 MW threshold is a major contributor to the need for the upstream transmission connection investment. For example, a customer with a 4.5 MW demand may represent 50% of the need for the investment. In such a situation, the beneficiary pays principle would not be upheld, as the customer would avoid a capital contribution and other customers would pay for all of the investment, even though they only use 50% of the capacity.

LPMA submits that the OEB should consider including a provision for the allocation of costs to a non-large customer if that customer represents more than a certain percentage of the costs of the investment. This secondary materiality threshold would reduce the potential and magnitude of allocating costs to other customers.

LPMA supports the transmitter doing all the calculations rather than the individual distributors. This ensures that all calculations will be done on a comparable basis. Individual distributors may not necessarily interpret the inputs into the DCF calculations in the same way as another distributor. This could result in inequities between customers served by different distributors.

3. PROPOSED TSC AND DSC AMENDMENTS: APPROACHES TO 'APPORTION' COSTS FOR END-OF-LIFE CONNECTION REPLACEMENTS AND MULTI-DISTRIBUTOR REGIONAL SOLUTIONS – REPLACEMENT OF

END-OF-LIFE TRANSMISSION AND DISTRIBUTION CONNECTION ASSETS (section 6.72. of TSC, new section 3.1.17 in DSC)

LPMA generally supports the revisions as proposed related to the treatment of end-of-life assets. LPMA remains concerned about the lack of incentive for distributors to "right-size". However, LPMA believes that this issue can be addressed through the capital expenditure plans during a cost of service application or as part of an incremental capital request under IRM. LPMA notes, however, that this may result in more scrutiny being applied to historical expenditures.

LPMA supports the OEB's modernization of both the DSC and TSC. Instead of assuming that wires replacement is the only option when an asset reaches end-of-life, the provisions in the codes only apply where the wires replacement at end-of-life is determined to be the optimal solution.

With respect to the regional distribution solution, LPMA supports the inclusion of existing assets in addition to new and modified assets, as proposed.

4. PROPOSED TSC AND DSC AMENDMENTS: FACILITATING REGIONAL PLAN IMPLEMENTATION AND MITIGATING ELECTRICITY BILL IMPACTS

LPMA remains concerned that customers are not being held harmless based on the proposed treatment with respect to the payment of interest by distributors to the transmitter on the unpaid balance under the annual installment option.

As indicated by the Board, 100% of the project cost will be included in rate base when a project is completed. Part of the project cost will be included in the distributor rate base based on the amount of the cumulative installment payments made to the transmitter. The remainder of the project cost will be included in the transmitter rate base. Over time, normally 5 years, rate base will shift from the transmitter to the distributor as the annual payments are made. In both cases, the inclusion of the project costs in rate base means that both the distributor and transmitter will earn a return based on the Board's approved cost of capital, which includes equity and long-term and short-term debt. LPMA has no issue with the return earned by either the distributor or the transmitter.

LPMA does, however, have a concern with the transmitter charging interest on the unpaid balance (i.e. the amount that is included in the transmitter rate base that has not yet been transferred to the distributor rate base). The Board has determined that the prescribed construction work in progress ("CWIP") rate will be used to calculate the interest that will be charged by the transmitter to the distributor and will accrue monthly commencing on the date the connection asset goes into service and would be paid annually, as part of each installment payment, as set out in section 6.3.19 of the TSC.

It appears to LPMA that this results in the transmitter receiving its overall cost of capital on the unpaid balance – since the unpaid balance is included in the transmitter's rate base – and a further amount based on the CWIP interest rate, even though there is no construction work in progress associated with the project because it is already in rate base.

LPMA has no issue with this interest cost being included in the distributor rate base as the annual payments, including the interest cost are paid to the transmitter. However, it appears to be a source of revenue for the transmitter that is not reflected in rates for the customers. The customers pay the full cost of capital of the assets and the transmitters collect an amount over and above the allowed return through the CWIP based interest rate on the unpaid balance.

The Board indicates that the CWIP rate is being proposed to address the *incremental financing costs* the transmitter will need to incur in receiving the capital contribution over time rather than through a single payment at the time the asset goes into service. LPMA is not sure what these *incremental financing costs* are, given that the transmitter is receiving its cost of capital on the unpaid balance that is included in its rate base.

LPMA submits that any revenue generated through this interest charge should be placed in a deferral account and returned to customers. The transmitter is already earning its allowed cost of capital on the unpaid balance being included in rate base. Ratepayers will be paying more through their distribution rates because this interest cost will be reflected in a higher distribution rate base. Without the interest collected by the transmitter being returned to customers, customers are not held harmless. They are paying the additional cost on the distribution side and getting no offsetting credit on the transmitter side.

LPMA further notes that the transmitter is not being held harmless. It is, in fact, benefiting from the unpaid balance. Like with all assets included in rate base, it can earn its overall cost of capital (equity, long-term and short-term debt). These unpaid balances, however, attract a further return equal the CWIP rate. LPMA is unaware of any other assets that receive this type of treatment.

5. PROPOSED TSC AND DSC AMENDMENTS: ADDRESSING INCONSISTENCIES AND GAPS

LPMA continues to strongly support the Board's continuing proposal to change the wording from "may" to "shall" as reflected in the September Proposed Amendments with respect to the cost responsibility code in the DSC.

LPMA believes that the beneficiary pays principle should be upheld with respect to the recovery of costs. Not only does this ensure that non-beneficiaries do not subsidize the cost of a project, but it ensures consistent treatment of all load customers, regardless of what distributor serves them. The current level of discretion can lead to inequitable treatment of customers served by different distributors and even to different customers served by the same distributor.

LPMA accepts and supports the other changes proposed under this section, including but not limited to maintaining the status quo of using 5 years rather than 15 years in the calculation of capital contribution refunds/rebates to the initial customer, the maintenance of a 5 year term for capital contribution true-ups and load forecasts, the inclusion of partial bypass in section 3.5.1 of the DSC and the proposed revised definition of a customer to deal with embedded distributors.

6. OTHER PROPOSED TSC AND DSC AMENDMENTS

LPMA supports the OEB's determination with respect to the definition of an embedded distributor and the clarification related to capital contribution refunds.

With respect to the treatment of overloads, LPMA believes that transmitter and distributors should manage the load on their assets to ensure the best value for its customers. This includes both customer reliability and appropriate costs. The cost component would reflect a trade off between ensuring that the end-of-life of an asset is not advanced due to constant overloading and potentially higher maintenance costs with the cost of some other solution that alleviates the overloading problem.