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March 14, 2019

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-2018-0130- Submissions of the London Property Management Association

Please find attached the submissions of the London Property Management Association in the above noted application.

Sincerely,

Randy Aiken

Randy Aiken
Aiken & Associates

cc: Linda Gibbons, Hydro One

HYDRO ONE NETWORKS INC.

Application for electricity transmission revenue requirement effective January 1, 2019

SUBMISSIONS OF LONDON PROPERTY MANAGEMENT ASSOCIATION

A. INTRODUCTION

Hydro One Networks Inc. ("Hydro One") filed an application with the Ontario Energy Board ("Board") on October 26, 2018 under section 78 of the *Ontario Energy Board Act, 1998* and under the Board's *Filing Requirements for Electricity Transmission Applications*. Hydro One is requesting approval for changes to its electricity transmission revenue requirement to be effective January 1, 2019.

Hydro One proposed a Revenue Cap Index ("RCI") approach to determine its 2019 transmission revenue requirement and, in particular, that the Board adopt the RCI proposed and associated parameters that were proposed and are being considered in the proceeding associated with EB-2018-0218, which is Hydro One Sault Ste. Marie LP's ("Hydro One SSM") application for approval of its 2019 revenue requirement.

The Board issued a Notice of Hearing on December 7, 2018 and Procedural Order No. 1 was issued on January 24, 2019. Interrogatories from a number of parties were filed on February 7, 2019 and Hydro One filed responses on February 28, 2019.

This is the submission of the London Property Management Association ("LPMA") related to this application.

B. SPECIFIC QUESTIONS

In Procedural Order No. 1 the Board stated that it would not further test the benchmarking and total factor productivity evidence filed in the Hydro One SSM proceeding in this current Hydro One transmission proceeding.

The Board also indicated in Procedural Order No. 1 that it would like parties to address three specific questions. The following are the submissions of LPMA on each of the three questions.

i) Is it appropriate to use the rate setting parameters proposed for Hydro One SSM on a preliminary basis, or should another approach be adopted?

LPMA submits that it is appropriate to use the rate setting parameters (inflation and total productivity, including stretch factor) proposed for Hydro One SSM on a preliminary basis, with the exception that the inflation rate should be updated to reflect the inflation parameters used by the Board to set 2019 rates (see Section C, part (i) below.

LPMA is not aware of any evidence being filed in this proceeding that would support or propose another approach being adopted.

ii) What should be the nature of the proposed variance account? Should it true up to the approved parameters for Hydro One SSM, true up to parameters determined in Hydro One's Custom IR proceeding or some other option?

LPMA submits that the proposed variance account should true up to the approved parameters for Hydro One SSM, as proposed by Hydro One.

LPMA does not support any true up to parameters determined in Hydro One's Custom IR proceeding since that would imply that rates for 2019 would, in effect, remain interim through all of 2019 and well in 2020, when it is expected that a decision on the yet to be filed Custom IR application would be expected. Even if rates were finalized for 2019, any variance between the revenue cap index used for 2019 and whatever were to come out of the Custom IR proceeding would be recorded in the variance account and would ultimately impact the costs to customers based on their 2019 consumption.

Hydro One is only asking for the Board decision with respect to the 2019 revenue requirement and impact on the uniform transmission rates. This determination should not be impacted by a potential future filing.

iii) What additional evidence should Hydro One be required to file in its next Custom IR application with respect to the RCI parameters?

LPMA is unable to provide a response to this question because it may depend on the type of Custom IR application filed by Hydro One.

As noted above, LPMA does not support the use of any RCI parameters that may be the result of a potential future Custom IR proceeding from being applied retroactively to 2019.

C. OTHER ISSUES

The following are the submissions of the LPMA related to the issues raised in the application.

i) Revenue Cap Index

Hydro One has proposed a revenue cap index equal to inflation less productivity. LPMA accepts this proposal for the 2019 rate year, with two adjustments to the Hydro One proposal.

With respect to the inflation rate, LPMA accepts, again for the 2019 rate year, the use of an 86% weight applied to the annual percentage change in Canadian GDP-IPI (FDD) and a 14% weight applied to the annual percentage change in the Average Weekly Earnings for workers in Ontario, both as reported by Statistics Canada.

Hydro One has used a place holder of 1.2% based on the two components used by the Board to determine the inflation rate for 2018. LPMA submits that the Board should adjust the inflation rate to 1.4%, as shown in the response to Exhibit I, Tab 3, Schedule 7. This update reflects the most recent information from the Board for each of the two components of the inflation calculation that was used to calculate the inflation rate for 2019. Hydro One supports this update, as indicated on page 4 of Exhibit A, Tab 4, Schedule 1. LPMA notes that the use of the 1.4% in place of the 1.2% placeholder will reduce the amount captured in the variance account proposed by Hydro One to track the revenue requirement impact of changes to Hydro One's proposed inflation and productivity factors established by the Board in the Hydro One SSM proceeding (EB-2018-0218).

LPMA accepts the use of the EB-2018-0218 determination of the productivity factor to be used in the current application for the 2019 rate year. LPMA notes that the productivity factor is equal to the sum of Hydro One's custom industry total factor productivity measure and Hydro One's custom productivity stretch factor.

The second adjustment proposed by LPMA is that the revenue cap index should be applied to the Export Transmission Services rate of $1.85/MWh.

LPMA agrees with Hydro One that as part of a mechanistic revenue cap index approach, other revenue offsets such as the external revenue and WMS revenue shown in Table 1 of Exhibit A, Tab 7, Schedule 1 should be kept at the 2018 approved values. Similarly, there should not be any update of the billing determinants under a revenue cap.

In the response to Exhibit I, Tab 5, Schedule 13, Hydro One states that a significant portion of the revenue offsets (external revenue, WMS revenue and Export Tx Service revenue) are driven by frozen rates and service volumes that are not impacted by inflation. LPMA agrees that this is reasonable for both the external and WMS revenue, but not for the export driven revenue. Hydro One states in the same response that the Export Tx Service revenue is driven by the export transmission service rate.

Hydro One's revenue cap index results in a higher revenue requirement for 2019 based on the index. With no changes in external and WHM revenues and no change in the billing determinants, this results in higher Uniform Transmission rates. LPMA submits that there is no logic in increasing the uniform transmission rates to take into account inflation less productivity and then not applying the same index result to another rate, the export transmission service rate. The same factors impact the export transmission service rate as impact the network, line connection and transformation connection rates.

LPMA notes that in Table 1 of Exhibit A, Tab 7, Schedule 1, Hydro One has increased the LVSG credit between 2018 and 2019 by the revenue cap index. The export transmission service rate should receive the same treatment.

Under the Hydro One approach, transmission costs to Ontario customers will increase, while there would be no increase for export service customers. LPMA submits that this is not just or reasonable and it creates a larger differential between the export transmission rate and the uniform transmission rates. It is not clear to LPMA how the export transmission service rate will be addressed, if at all, in the 3-year Custom IR application with a 2020 -2022 test period. The differential between the export transmission rate and the uniform transmission rates may well increase over this period as well.

LPMA submits that this is not a reasonable outcome and the Board should direct Hydro One to increase the export transmission service rate for 2019 by the same revenue cap index that is applied to the revenue requirement and the LVSG credit.

As noted above, LPMA submits that the revenue generated through the export transmission service should reflect the revenue cap index. For the purpose of calculating the 2019 revenue requirement, LPMA agrees that 2018 amount of $40,050,000 should continue to be used, as is proposed by Hydro One. However, since there is a variance account that tracks the difference between this amount and the amount actually generated, LPMA submits that there is no reason why the export transmission service rate cannot be adjusted by the revenue cap index with the impact on revenues tracked in the existing variance account.

ii) Bill 2, Urgent Priorities Act Adjustments

As indicated at page 1 of Exhibit A, Tab 5, Schedule 1, Hydro One's intent was that its proposed Bill 2 adjustment would be applied consistently for both its distribution and transmission business. Hydro One further indicated that the proposed Bill 2 adjustment in the current application was on the same basis as its proposal in its 2018-2020 Custom IR distribution rate application (EB-2017-0049).

Given that the Board issues its Decision and Order in EB-2017-0049 on March 7, 2019, LPMA submits that the Board should direct Hydro One to update the Bill 2 adjustments in the current application to reflect any impacts resulting from the Board's EB-2017-0049 decision.

In particular, LPMA submits that the Board should direct Hydro One to file its calculations and relevant supporting evidence reflecting any changes in the amount of the adjustments as part of the draft rate order.

iii) Deferral and Variance Accounts

LPMA supports the accounts and balances shown for disposition in Table 2 in Exhibit A, Tab 6, Schedule 1 as being appropriate. While not all of the accounts have material balances, the aggregate balance is material and LPMA submits that it should be cleared to customers over the 1-year proposed disposition period, or over a shorter period depending on the Board's decision with respect to the effective date of the rate change.

iv) Rate Design

Hydro One has shown the derivation of the 2019 rates revenue requirement in Table 1 in Exhibit A, tab 7, Schedule 1. LPMA submits that the derivation is appropriate but submits that if the Board makes any determinations that impact on any of the component numbers shown in Table 1, it should direct Hydro One to include an updated Table 1 in the draft rate order.

LPMA has reviewed the proposed revenue requirement allocation to the three transmission rate pools as shown on page 3 of Exhibit A, Tab 7, Schedule 1 and the corresponding response to a Board Staff interrogatory at Exhibit I, Tab 1, Schedule 1.

LPMA supports the allocation methodology shown in the response to the Board Staff interrogatory and notes that Hydro One states that the methodology requested by Board Staff more appropriately derives the 2019 revenue requirement to the three transmission pools.

The resulting uniform transmission rates of this preferred allocation are shown in the response to Exhibit I, Tab 5, Schedule 14.

v) Effective Date

Hydro One has proposed an effective date for rates of January 1, 2019. LPMA does not believe that this is reasonable given that Hydro One did not file an application until the end of October, 2018. As noted above, a Notice was issued in early December and Procedural Order No. 1 was issued in late January.

Hydro One points out that its application is mechanistic in nature and as such should require less processing time than a typical cost of service or Custom IR application (Exhibit I, Tab 7, Schedule 1). Hydro One also notes that it experienced organizational changes including the appointment of a new Board of Directors in August, 2018 (Exhibit A, Tab 3, Schedule 1).

While LPMA submits that the application is mechanistic in nature, Hydro One only allowed 2 months for a decision to be issued from the date of filing (October 26, 2018) to the proposed effective date of January1, 2019. LPMA submits that this is unreasonable and that the Board should say no to an effective date of January 1, 2019.

LPMA further submits that the organizational changes it experienced in 2018 is a justification of when Hydro One finally filed its rates application. It is, however, not a justification to continue to request a January 1, 2019 implementation rate.

LPMA notes that it will be more than 5 months from when Hydro One submitted the application to when their reply submissions are due at the end of March, 2019. LPMA submits that the earliest effective date for rates should be April 1, 2019 and that an even more appropriate date would be June 1, 2019, which would reflect a 5-month period from when an application is filed to when rates become effective.

D. COSTS

LPMA requests that it be awarded 100% of its reasonably incurred costs.

ALL OF WHICH IS RESPECTFULLY SUBMITTED
March 14, 2019

Randy Aiken
Consultant to London Property Management Association