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July 5, 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-2019-0120 – Hydro One Networks Inc. Allocation of Construction Costs of the Supply to Essex County Transmission Reinforcement Project – Submissions of the London Property Management Association

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

Yours very truly,

Randy Aiken

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Aiken & Associates

c.c. Joanne Richardson, Hydro One
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Hydro One Networks Inc.

Application for Approval of the Allocation of Construction Cost of the Supply to Essex County Transmission Reinforcement Project

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SUBMISSIONS OF LONDON PROPERTY MANAGEMENT ASSOCIATION

A. INTRODUCTION

On February 28, 2019, Hydro One Networks Inc. ("HONI") filed an application with the Ontario Energy Board ("OEB") under section 6.3.18A of the *Transmission System Code* seeking approval of the allocation of the construction costs of the Supply to Essex County Transmission Reinforcement Project ("the Project").

In particular, HONI is seeking approval from the OEB appropriate allocation for the disposition of funds being held in the Supply to Essex County Transmission Reinforcement Deferral Account ("SECTRDA").

SECTRDA was approved by the OEB in Procedural Order No. 8 and Accounting Order in EB-2013-0421 dated August 28, 2015. The purpose of the account was to record the construction costs related to the Project, which itself was approved by the OEB on July 16, 2015. The Project went into service on June 30, 2018.

At the time of the approval of the leave to construct approval of the Project, the OEB determined that the Project would be addressed in two phases. Phase 1 was the leave to construct application and phase 2 related to the cost allocation issues of the Project. The OEB determined that the cost allocation issues would be completed through a policy development consultation.

The OEB subsequently held this consultation with the aim of ensuring that the cost responsibility provisions for load customers in the Transmission System Code ("TSC") and the Distribution System Code ("DSC") were aligned and facilitated regional planning and the implementation of regional infrastructure plans (EB-2016-0003).

As a result of the consultation, the OEB issued amendments to the TSC and the DSC on December 18, 2018. The HONI application in this proceeding is pursuant to Section 6.3.18 and 6.3.18A of the TSC and is for the approval of the allocation of costs between the triggering customer and the network pool for all of the costs recorded in the SECTRDA.

The following are the submissions of the London Property Management Association ("LPMA") on the two issues that it believes are of importance.

B. THE PROPORTIONAL BENEFIT APPROACH

Section 6.3.18 of the TSC states that where one or more customers trigger the need for a new or modified transmitter-owned connection facility and the Independent Electricity System Operator ("IESO") undertakes an assessment at the request of a transmitter than confirms the new or modified connection facility will also address a broader network system need, the transmitter shall determine the proportional benefit and the related attribution of costs between the triggering customer(s), collectively, and the network pool.

In the current application, HONI is proposing to use proportional costs as a proxy for the proportional benefits (Exhibit I, Tab 1, Schedule 1). This results in the relative benefits between the triggering customer (Hydro One Distribution) and all ratepayers (network pool) being strictly a function of the relative costs.

LPMA supports the use of proportional costs as a proxy for the proportional benefits. LPMA submits that while costs may not be completely proportional to benefits, they do make a relatively good proxy in this case given that there was only one triggering customer. Furthermore, no alternative has been provided as a proxy for the proportional benefits.

As noted in the response to Exhibit I, Tab 1, Schedule 1, HONI has updated the costs since the time of the EB-2013-0421 proceeding to reflect the best information available at this time. Further cost updates were provided in the response to Exhibit I, Tab 2, Schedule 3. LPMA supports the use of the most up-to-date information available to allocate the costs.

C. ALLOCATION OF COSTS

In the April 26, 2019 letter, the IESO noted that the allocation of costs is based on estimates at a given point in time and that using new cost information to revisit cost allocations would result in allocation ratios that differ from the original cost allocation available at the time of the leave to construct determination. The IESO further noted that the new allocation proposed by HONI was based on estimated avoided network costs and actual construction costs for the Project rather than allocation ratios at the time the Project was approved which were based on estimated avoided network costs and estimated Project costs.

LPMA submits that had the allocation of costs been approved by the OEB at the same time as the leave to construct was approved, then the allocation ratios based on the estimated avoided network costs and estimated Project costs should have been used, given that no other information would have been available.

Section 6.3.18A of the TSC states that where section 6.3.18 applies, the transmitter shall apply to the Board for approval of the attribution of costs between the triggering customer(s) and the network pool and that where the OEB approves a different attribution of costs, the transmitter shall recalculate the capital contribution to be made by the triggering customer(s).

Given that the OEB did not approve the attribution of costs as part of Phase 1 of EB-2013-0421 and that the current proceeding deals with the allocation of the construction costs related to the Project, LPMA supports the use of updated estimates and actual construction costs.

LPMA notes the section 6.3.18A of the TSC is silent on the use of estimated or actual costs (or a combination of both) at a given point in time. LPMA believes that in the current proceeding, which deals with the allocation of costs, the best information should be used by the OEB to determine an appropriate allocation of costs.

LPMA does not, however, agree with the HONI proposal to allocate costs based on their updated interim costs. As noted in HONI's February 28, 2019 letter, the $54.3 million cost of the Project would be allocated 27.4% ($14.9 million) to transmission ratepayers and 72.6% ($39.4 million) to the load customer. This is a change from the original filed cost allocation of 22.5% ($12.9 million) to transmission ratepayers and 77.5% ($44.6 million) to the load customer in EB-2013-0421.

In the response to an LPMA interrogatory (Exhibit I, Tab 2, Schedule 3), HONI has updated the forecasted final cost and the allocation based on both a forecasted final cost of the Project of $57.5 million (as opposed to the filed figure of $54.3 million) and an updated cost for the avoided network investment of $18.1 million (as opposed to the filed figure of $20.5 million).

These updated figures are explained in the response at Exhibit I, Tab 1, Schedule 2. In particular, the $54.3 million cost noted in the February 28, 2019 letter represented only the actual cost to date and some additional costs remained to be finalized. The final cost of the Project was forecast to be $57.5 million. LPMA also notes that the forecasted final cost of $57.5 million is equal to the original filed cost in EB-2013-0421.

In addition, HONI used recent projects to benchmark the costs associated with the network need. This resulted in updated cost estimates of $18.1 million (Exhibit I, Tab 1, Schedule 2).

LPMA supports the use of both of these updated estimates/forecast in determining not only the cost allocation ratios, but the cost of the project to be recovered.

As shown in the final column of the response on page 2 of Exhibit I, Tab 2, Schedule 3, the use of the updated forecasted final cost result in an allocation to transmission ratepayers of 23.9% ($13.7 million) and 76.1% ($43.8 million) to the load customer. These allocation factors – both percentages and dollars – are similar to the original filed cost allocation, differing by less $1 million on the amount to be allocated to both transmission ratepayers and the load customer.

D. COSTS

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

ALL OF WHICH IS RESPECTFULLY SUBMITTED
July 5, 2019

Randy Aiken
Consultant to London Property Management Association