LONDON PROPERTY MANAGEMENT ASSOCIATION INTERROGATORIES

M1-LPMA-3

Reference: Exhibit M1, pages 11 and 14

Interrogatory:

On page 14 the evidence states that the average C factor is 3.84%. On page 11, the evidence states that proposed supplemental stretch factor of 0.42% would reduce the average C factor to an average of 3.50%. Please explain the difference between 3.84% and 3.50% (0.34%) and the 0.42%.

Response to LPMA-3: The following response was provided by PEG.

Table B1 in PEG's September report shows that the formula for calculating the C factor was $C=C_n-S_{cap}*(I+S)$. As a result, the full S factor is not applied in the C factor, instead being applied only to the share of capital in the total revenue requirement.

PEG discovered a small error in its C factor calculations. This is discussed in our response to HON-13 (Exhibit L1/Tab 1/Schedule 13). The response includes a table presenting revised calculations for the S factor, C factor, and revenue cap index growth under three X factor assumptions (X = 0, 0.0005, and .0030). Results are compared to Hydro One's proposals.

M1-LPMA-4

Reference: Exhibit M1, page 45

Interrogatory:

a) Please provide a numerical example that illustrates the recommendation that the company be permitted to keep 5% of the value of capex underspends based on an approved budget of $1.3 billion in capital expenditures and actual capital expenditures of $1.2 billion.

b) Is the 5% before or after tax?

c) Does the proposal apply to the IRM years (2021 and 2022) only or does it also apply to the cost of service test year (2020)?

Response to LPMA-4: The following response was provided by PEG.

a) PEG was retained by OEB Staff to provide general commentary on Hydro One's proposed custom transmission IR plan provisions. In our September report, the ratemaking treatment of plant addition underspends was one of the provisions that we addressed in this fashion. PEG believes that the request to develop a detailed underspend mechanism cannot be addressed within a reasonable time and with reasonable effort within the current schedule for this proceeding. We can, however, provide the following clarification of our views on the design of this mechanism.

- Hydro One proposes a "dead band" approach under which the Company would keep the first 2% of the revenue requirement impact of underspends. Under this proposal, the Company would keep *all* of the benefits of holding the revenue requirement for new capital 2% below the approved requirement but *none* of the incremental benefits of larger capex economies. The Company's incentives would be greater if it were permitted to keep 2% of *all* capex economies. The table that PEG provided in response to VECC-2 (Exhibit L1/Tab 5/Schedule 2) details some of the precedents for capital cost variance sharing mechanisms of this kind.

- What matters most to customers is the depreciated cost of new plant additions at the end of the plan, since this has the most effect on the revenue requirement in the next rebasing. Thus, the reward should be based solely on the cumulative savings by the end of the last year of the plan.

- Recollecting that we recommend a 5% company share, if CK^{new} is the revenue requirement in 2022 for plant additions made during the 3 plan years, the Company's share should be 0.05 x ($CK^{new}_{budgeted}$ - CK^{new}_{actual}). The precedents documented in Table VECC-2 provide many possible variations on this theme.

b) PEG understands that Hydro One has proposed to gross up taxes under the CISVA and believes that it is appropriate to do so.

c) PEG understands that Hydro One has proposed to include the 2020 cost of service test year and the IRM years in the CISVA. PEG agrees with this aspect of Hydro One's proposal.