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December 16, 2019

Ms. Christine Long
Registrar and Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Long,

RE: EB-2019-0082 - London Property Management Association Submissions – Hydro One Networks Inc. Application for Electricity Transmission Rates for the Period January 1, 2020 to December 31, 2022

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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Hydro One Networks Inc.

**Application for Electricity Transmission Revenue
Requirement Beginning January 1, 2020 Until
December 31, 2022**

**SUBMISSIONS
OF
LONDON PROPERTY MANAGEMENT ASSOCIATION**

A. INTRODUCTION

Hydro One Networks Inc. (“Hydro One”) filed a three year transmission customer incentive rate setting (“Custom IR”) application with the Ontario Energy Board (“OEB”) on March 21, 2019 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 (Schedule B) seeking approval for changes to the rates that Hydro One charges for electricity transmission to be effective January 1, 2020 and for each of the following years through to December 31, 2022.

The OEB issued a Notice of Hearing on April 12, 2019 and Procedural Order No. 1 on May 30, 2019 that set out, among other things, the dates for the filing of interrogatories, interrogatory responses on the Hydro One evidence and dates for the technical conference. The technical conference began on August 12, 2019 and concluded on August 13, 2019.

On June 28, 2019, the OEB issued a letter with an attachment of evidence to be adopted from EB-2018-0218 (Hydro One Salut Ste. Marie LP).

Procedural Order No. 2 dated August 9, 2019 dealt with submissions on the Hydro One requests for confidentiality. Procedural Order No. 2 dated August 21, 2019 set out dates for the filing of expert evidence, interrogatories on the expert evidence, interrogatory responses on the expert evidence and dates for the oral hearing. The oral hearing began on October 21, 2019 and concluded on November 4, 2019.

On September 23, 2019 the OEB issued its Decision on Issues List and Confidentiality.

The following are the submissions of the London Property Management Association (“LPMA”). LPMA has not attempted to make submission on all of the issues in the approved issues list. Rather it has limited its submissions to those that are of most importance to its members.

B. GENERAL COMMENTS

As a general comment, LPMA submits that the OEB should not get lost in the details of the evidence with respect to capital project spending or operation, maintenance and administration costs. Rather, LPMA believes that the OEB should consider the broader proposals related to capital spending and OM&A expenses.

As the starting point, LPMA has based its submissions on Table 1 in Exhibit J8.5 that shows a total revenue requirement of \$1,602.3 million, a rates revenue requirement of \$1,549.7 million and a rates revenue requirement including disposition of deferral and variance accounts of \$1,556.6 million. It is LPMA’s understanding that these updated figures include the cost of capital updates (including debt issuances), inflation update, accelerated capital cost allowance and updated pension valuation.

LPMA notes that Hydro One has made significant strides in becoming more efficient and controlling costs. This has helped to keep rates lower than they would otherwise be. LPMA also acknowledges that much of the increase in rates is driven by the resetting of the load forecast. As indicated on page 10 of the Hydro One Argument in Chief (“AIC”) dated November 11, 2019, the average transmission rate increase in 2020 is 4.1%, of which 3.8 percentage points is attributable to the declining load. Over the 2020-2022 period, the average annual rate increase is 5.5% and would be 3.8% if the impact of the declining load was excluded.

On the surface this looks very positive. The total revenue requirement of \$1,602.3 million represents a decrease in the EB-2018-0130 OEB approved revenue requirement of \$1,644.4 of approximately 2.5% or \$42.1 million (Exhibit J8.5, Table 1). Once the impact of external revenues and other revenues and the disposition of deferral and variance accounts is factored in, the resulting rates revenue requirement rises to \$1,556.6 from the EB-2018-0130 approved amount of \$1,552.3, or an increase of only 0.3%.

However, offsetting these positive aspects of the application are some not so positive aspects as well. For example, the total revenue requirement for Hydro One is projected to increase by 5.05% in 2021 and a further 5.57% in 2022 (Exhibit J8.5, Tables 4 & 5).

The net impact on average transmission rates is an increase of 4.1% in 2020, 5.8% in 2021 and 6.5% in 2022 (Exhibit J8.5, Table 6).

As noted above, the total revenue requirement for 2020 is \$41.2 million less than the corresponding figure approved by the OEB for 2019 in EB-2018-0130. Upon further analysis, however, none of this decrease is due to Hydro One. As shown in Table 1 of Exhibit J8.5, the total revenue requirement has been reduced by \$39.7 million as a result of the 2020 cost of capital parameter updates and \$23.6 million as a result of the availability of the accelerated capital cost allowance. A further reduction of \$8.2 million is due to actual debt issuances which reflect lower interest rates (Exhibit I-04-LPMA-019).

In total these three items – which are beyond the control of Hydro One – total a reduction in the total revenue requirement of \$71.5 million. That means without these changes, the total revenue requirement would have increased by \$30.3 million (\$71.5 - \$41.2) to \$1,673.8 million, which is an increase of \$29.4 million or an increase of 1.8% over the OEB approved EB-2018-0130 total revenue requirement for 2019.

LPMA also notes that Hydro One has over earned in each of the last five years. As shown in Exhibit I-02-Energy Probe-024, the company over earned by 2.08% in 2018, 0.25% in 2017, 0.83% in 2016, 1.63% in 2015 and 3.76% in 2014. The 2014-2018 five-year average of over earning is 1.71%, while the 2016-2018 three-year average of over earning is 1.05%.

LPMA has not included a summary of the issues the submissions that follow. OEB Staff has done an excellent job of summarizing the evidence and proposals with respect to all of the issues and there is no need for LPMA to repeat this summary.

C. SUBMISSIONS ON ISSUES

GENERAL

1. Has Hydro One responded appropriately to all relevant Ontario Energy Board (OEB) directions from previous proceedings?

LPMA submits that Hydro One has responded appropriately and adequately to all of the relevant OEB directions from previous proceedings.

2. Are the bill impacts resulting from Hydro One's proposed revenue requirement reasonable?

LPMA submits that the OEB should not put much emphasis on the bill impacts that result from Hydro One's proposed revenue requirement. This is because transmission costs make up a small portion of a typical customer's bill. As shown in Table 6 in Exhibit J8.5, transmission as a percentage of a distribution connected customer's total bill is about 6.2%. Rather, the emphasis should be placed on the growth in the revenue requirement and the change in transmission rates, that takes into account both the change in the revenue requirement and in the change in the load forecast.

As shown in Table 6 in Exhibit J8.5 Hydro One has proposed an increase in average transmission rates of 4.1% in 2020, 5.8% in 2021 and 6.5% in 2022. This increase has two components – the impact of the load forecast and the increase in the revenue requirement.

While the increase in 2020 (4.1%) is primarily driven by the reduction in the load forecast (3.8%), and an increase of 0.3% in the rates revenue requirement, the same is not true for the following two years. In 2021, the increase of 5.8% is driven by a 5.2% increase in the rates revenue requirement and an increase of only 0.6% due to the load forecast. Similarly, in 2022, the overall increase of 6.5% is driven by an increase of 5.8% in the rates revenue requirement and only 0.7% related to the load forecast.

LPMA submits that the increase in the rates revenue requirement in 2021 and 2022 at 5.2% and 5.8%, respectively, is not reasonable. Not only are these increases on average triple the current inflation rate of 1.8%, they are taking place when demand on the system is falling. Customers are being asked to pay significantly more while taking less.

The annualized average increase in the rates revenue requirement between the OEB approved rates revenue requirement for 2019 (EB-2018-0130) of \$1,552.3 million and 2022 is 3.7%, double the current rate of inflation. LPMA notes that the above increase is based on a starting point of the OEB approved rates revenue requirement for 2019. Given Hydro One's history of over earning in each of 2014 through 2018 (Exhibit I, Tab 02, Schedule 24) and significant over earning of more than two percentage points in 2018, LPMA submits that proposed annualized average increase over the actual revenue requirement for 2019 is likely higher than the 3.7% noted above.

3. Were Hydro One's customer engagement activities sufficient to enable customer needs and preferences to be considered in the formulation of its proposed spending?

LPMA submits that future Hydro One customer engagement activities should be focused on its customers alone, and not attempt to survey or surmise the views of its customers'

customers. Further, communication of the rate impact on transmission connected generators and end use customers should be part of the customer engagement with these groups.

The customer engagement focus with distributors should be on reliability and service requirements rather than on costs or transmission rates. Since all transmission rates/costs are ultimately passed through to the end use customers of distributors, distributors have no incentive to indicate to Hydro One that cost control and rising transmission rates are of concern to them.

Trying to determine the views of distribution customers (i.e. the customers of Hydro One customers), in the view of LPMA, is a waste of time and effort. The vast majority of non-Hydro One distribution customers are not even aware that they are paying transmission costs. Their main concerns are rising costs and the level of reliability. These customers do not have the in-depth knowledge or understanding to be able to determine the allocation of these concerns between distribution and transmission.

4. Is the proposed effective date of January 1, 2020 appropriate?

LPMA supports the proposed effective date of January 1, 2020. LPMA notes that Hydro One filed its application on March 21, 2019, which is more than nine months before the requested effective date. Nine months is the standard amount of time for the OEB to process such an application.

LPMA also notes that the application was deemed complete by the OEB as originally filed and that Hydro One met all deadlines with respect to filing interrogatory responses and technical conference undertakings.

CUSTOM APPLICATION

5. Are all elements of Hydro One's proposed Custom Incentive Rate framework for the determination of revenue requirement appropriate?

The proposed custom incentive rate framework is similar to other frameworks that have been approved by the OEB. LPMA, therefore, takes no issue with the general form of the framework. LPMA has no issues with the base productivity of 0%, the inclusion of a Z factor, the earnings sharing mechanism and the proposed off-ramps.

LPMA also has no issues with the inflation rate, including the weights used for the labour and non-labour components and the resulting rate of 1.8% for 2020.

LPMA has reviewed the submissions of OEB Staff in relation to the stretch factor component of the X factor and supports those submissions. In particular, LPMA submits that it is reasonable for the OEB to approve a stretch factor of 0.3% based on the Pacific Economics Group LLC (“PEG”) analysis. LPMA also notes that this would be consistent with the recent OEB decision in EB-2018-0218 for Hydro One SSM.

LPMA has reviewed the evidence of PEG related to the need for an S-factor in the capital factor calculation, as well as the OEB Staff submissions on thisq addition to the capital factor. LPMA supports the addition of an S-factor of 0.15% as proposed by OEB Staff.

LPMA agrees with the PEG response in Exhibit L1, Tab 2, Schedule 3, that the financial incentives for continuous improvement in capital cost management are unusually weak under the Hydro One proposed plan. PEG goes on to explain that the Hydro One proposal is essentially a hybrid regulatory system that combines a revenue cap index for OM&A with cost of service regulation for the capital component of the revenue requirement and that there would be a perverse incentive to substitute capital expenditures for OM&A expenses. In the words of PEG, the proposed system violates the spirit of the Board’s Custom IR guidelines, if not their letter. In this regard, LPMA notes that in the Handbook for Utility Rate Applications, dated October 13, 2016, the OEB provided further guidance/discussion with to Custom IR applications by stating (page 24):

Custom IR is not a multi-year cost of service; explicit financial incentives for continuous improvement and cost control targets must be included in the application. These incentive elements, including a productivity factor, must be incorporated through a custom index or an explicit revenue reduction over the term of the plan (not built into the cost forecast).

Hydro One has built productivity into the cost forecast, but there has been no explicit reduction for unexpected, un-forecasted and unknown productivity improvements in the future.

LPMA also notes that the OEB approved 0.15% S-factor for Hydro One Distribution’s Custom IR in the EB-2017-0049 decision. In that decision the OEB explained the reason for the addition of a 0.15% stretch factor to the capital factor (page 32):

Hydro One has argued that the 0.45% stretch factor inherent in the (I – X) adjustment is applied to the revenue requirement, and therefore applies to both OM&A and capital. The difference between the treatment of OM&A and capital with Hydro One’s proposal is that funding for OM&A is not based on

a forecast of OM&A costs. For OM&A, Hydro One is expected to manage within an increase of less than inflation (I – X) each year, regardless of its forecast costs. This is to incent the company to find productivity improvements. For capital, however, Hydro One has forecast capital expenditures for each year of the term, and is seeking funding for any incremental capital not funded by the (I – X) adjustment. The rate base from these forecast capital expenditures is increasing by more than inflation.

These same words can be used to describe the Hydro One Transmission proposal with respect to capital expenditures, the capital factor and the capital component of the revenue requirement.

On the same page of the EB-2017-0049 decision the OEB commented on the enhancement to Hydro One's planning process:

The OEB agrees that this process of defining, executing and reporting on productivity initiatives is an enhancement to Hydro One's planning. The OEB expects Hydro One to stretch itself more to find additional initiatives and to consider new approaches to its business. The OEB is therefore imposing an additional stretch factor for the capital factor of 0.15% to incent further productivity improvements throughout the term, and to provide customers the benefit from these additional improvements upfront.

LPMA submits that the same rationale that applied to Hydro One Distribution applies to Hydro One Transmission. Hydro One Transmission needs to stretch itself, just like Hydro One Distribution is expected to stretch itself. The outcome for Hydro One Transmission should be the same as it was for Hydro One Distribution given the similarities in their Custom IR approach. That outcome is a 0.15% stretch factor on the capital factor.

With respect to what should and should not be updated in the determination of 2021 and 2022 rates, LPMA a contradiction in the Hydro One proposal. This contradiction is that Hydro One proposed to update the inflation factor each year, but to keep the capital factor fixed as approved in this application. LPMA notes that the capital factor is dependent on, among other things, the inflation factor.

The inflation factor less the total X factor (base and stretch factor) determines the reduction in the capital factor percentage. This is illustrated in Table 2 of Exhibit J8.5. As the inflation rate changes from year to year the amount that needs to be recovered through the revenue requirement adjusted for the inflation less productivity factors (I –

X), excluding the capital factor, changes. This is illustrated in the response to Exhibit I, Tab 04, Schedule 2, parts (b) and (c). The difference between these two capital factor calculations is the inflation factor. The response in part (b) is based on the original 1.4% inflation forecast, while the response to part (c) reflects an inflation factor of 1.8%. The impact on the capital factor is significant. In 2021, the capital factor drops from 4.09% based on the 1.4% inflation factor to 3.78% based on the 1.8% inflation factor. Similar, the capital factor for 2022 drops from 3.58% to 3.27%.

As the above example provided in Exhibit I, Tab 04, Schedule 2 illustrates, an increase in the inflation rate adds to the OM&A revenue requirement, while reducing the capital factor and the capital component of the revenue requirement. LPMA submits that it would not be appropriate to only adjust the revenue requirement for the inflation factor, which impacts the OM&A component of the revenue requirement and not adjust the capital factor which impacts the capital component of the revenue requirement.

To be fair and consistent, if the inflation factor is updated annually, the capital factor should also be updated annual for the inflation factor. The capital factor would not be updated for capital expenditures/additions. This component of the capital factor would be fixed based on the OEB's determination in this proceed, as proposed by Hydro One.

On a final note, LPMA notes that Hydro One has included the working capital allowance in the capital related revenue requirement in the calculation of the capital factor (Exhibit I, Tab 04, Schedule 2). LPMA submits that the OEB should direct Hydro One to remove the working capital allowance from the capital related revenue requirement for the same reasons it did so in the Hydro One Distribution case (EB-2017-0049).

In the response to Exhibit I, Tab 04, Schedule 2, Hydro One indicates that the removal of the working capital allowance from the capital related revenue requirement in the calculation of the capital factor only reduces the revenue requirement by \$0.1 million in 2021 and \$0.2 million in 2022. With all due respect, LPA submits that this misses the point made by the OEB in the EB-2017-0049 Decision and Order dated March 7, 2019 wherein the OEB stated that (page 33):

The OEB finds that the calculation of the capital factor will not include a component for working capital in rate base. The capital factor provides funding for capital expenditures not funded through the (I – X) adjustment, and the OEB has determined that providing additional funding for working capital is inappropriate in this context. The OEB notes that the Rate Handbook expressly identifies the working capital allowance as an element the OEB expects will not be explicitly updated as part of annual update

applications. Furthermore, the working capital allowance is already implicitly increased annually through the (I – X) adjustment.

LPMA submits that what was inappropriate for Hydro One Distribution should also be inappropriate for Hydro One Transmission.

PRODUCTIVITY IMPROVEMENT AND PERFORMANCE SCORECARD

6. Has Hydro One taken appropriate steps to identify and quantify productivity improvements in all areas of its transmission operations?

LPMA believes that Hydro One has taken appropriate steps to identify and quantify productivity improvements in some areas of its transmission operations.

LPMA submits and believes that productivity improvement is an ongoing task. The quest for productivity should be considered an ongoing quest and not one that can be accomplished in one year or in one decade.

The nature of productivity improvements is that they need to be continually ongoing. There are always new areas to explore and to revisit. This is because changes in technology present new opportunities to do something faster, better and/or to eliminate the need to do it at all. It is also because one productivity improvement may lead to further improvements, or parallel improvements in other operational areas.

LPMA submits that it is not likely that Hydro One has identified productivity improvements in all areas of its transmission operations. Even if it has, it has only identified areas for productivity improvement at the current time. By tomorrow there is likely to be new ideas and new technology that can improve the improvements.

With respect to the current application, Hydro One indicates it has included productivity improvements related to capital additions in 2021 and 2022. However, LPMA submits that Hydro One does not have a crystal ball that lets them peak into the future and see all the potential productivity enhancements that will be available in those future years. There will always be the potential for unexpected, unforecasted and unknown productivity improvements in the future.

One area where productivity could be enhanced would be less time and effort spent on quantifying productivity improvements. Much of this quantification is subjective and based on assumptions that can vary widely.

7. Are the metrics in the proposed scorecard appropriate and do they adequately reflect appropriate outcomes? Do the outcomes adequately reflect customer expectations?

As noted above the customers which are referred to in this issue should be limited to transmission connected generators, end use customers and distributors. Distribution customers do not, for the most part, have any expectations related to transmission services. Their expectations are related to costs, keeping the lights on and getting the lights back on quickly if they do go out.

LPMA has no issue with the proposed scorecard metrics, but then again, LPMA does not put much stock in scorecards that do not have any consequences of not meeting targets. In most competitive industries, failing to meet targets has consequences that range from losing customers to lowering prices to keep or regain customers. All of these consequences and others have one key impact on a company. It costs them money and lowers their profitability. Hydro One and other regulated utilities do not suffer this consequence to the extent that can occur in other un-regulated industries if there are not consequences attached to scorecard metrics.

LPMA urges the OEB to start looking at consequences associated with scorecard metrics, both positive and negative, in the near future and give some teeth to the metrics.

8. What is the status of Hydro One's joint work with the IESO to explore cost effective transmission line loss reduction opportunities and to report on those initiatives?

LPMA has reviewed the November 9, 2019 Submissions of Environmental Defence related to cost effective transmission line loss reduction opportunities. In particular, LPMA is encouraged that Hydro One, through its letter of October 17, 2019 related to the settlement of Issue 8, has agreed to a number of steps as set out in that letter.

LPMA submits that the OEB should direct Hydro One to follow through and comply with the steps as set out in the October 17, 2019 letter.

TRANSMISSION SYSTEM PLAN

9. Are the proposed forecast capital expenditures and in-service additions arising from the transmission system plan appropriate, and is the rationale for planning and pacing choices (including consideration of customer preferences, planning criteria, system reliability, asset condition and benchmarking appropriate and adequately explained?

As noted above in the general comments, LPMA submits that the OEB should not get lost in the detail of the capital expenditures and in-service addition arising from the transmission system plan. Rather, the OEB should consider the pacing and level of the proposed capital expenditures and in-service additions.

LPMA also submits that the should the OEB determine that a reduction in capital is warranted it should focus on the reduction based on in-service additions rather than capital expenditures. This would avoid the issue of translating capital expenditure reductions into in-service capital addition reductions that have been encountered in the draft rate order process in recent Hydro One decisions.

LPMA notes that the transmission system plan is essentially a snapshot at a point in time and that the plan has and will change over time. Today's plan is not likely to be same as tomorrow's plan, and is already different from yesterday's plan. This is not to say that the planning process is flawed or should be ignored. It simply reflects the facts that things change over time often due to factors that cannot always be foreseen.

LPMA's concerns with significant increase in in-service capital additions is primarily focused on the system renewal category of spending and in the 2021 and 2022 years. LPMA has no significant issues related to system access, system service and general plant spending. LPMA also has no significant issues with respect to the in-service additions for system renewal in 2020.

As shown in Table 7 in Exhibit J1.1, actual in-service capital additions over the 2014 through 2018 period average about \$671 million. Over the last two years of actual in-service additions (2017 & 2018), this average is \$755 million.

Based on the recent average of 2017 & 2018, LPMA submits that the forecast for 2019 of \$770.5 million and for 2020 of \$762.0 million are reasonable.

LPMA submits that the increases forecasted for 2021 and 2020 system renewal are not reasonable. The increase in 2021 to \$998.7 million is more than 31% over the 2020 level and the increase to \$1,138.7 million in 2020 is a further increase of 14% over the 2021 level.

LPMA submits that if system renewal expenditures are necessary to maintain the reliability of the system, the obvious question is why Hydro One is spending less on it in both 2019 and 2020 than it did 2018. The average reduction in system renewal spending in 2019 and 2020 (\$766.3 million) is \$86 million per year lower than the spending recorded in 2018.

LPMA also questions the timing of the need for the significant increase in system renewal capital expenditures given the continued favourable comparison of Hydro One with data from the Canadian Electricity Association (“CEA”) in the comparisons of the frequency of momentary interruptions, the frequency of sustained interruptions, the overall frequency of interruptions, the duration of sustained interruptions and the unreliability index provided in Exhibit D, Tab 2, Schedule 1 and updated to include actual data for 2018 in Exhibit I, Tab 04, Schedule 9. Hydro One’s performance in each of these measures has been better than the CEA composite in at least each of the last six years.

LPMA submits that the OEB should approve a reduction in system renewal in-service capital additions of \$140 million in 2021 and \$280 million in 2020. This would leave the forecast in-service additions for system renewal at approximately \$858 million in each year, a level similar to the actual level of in-service addition in 2018, which was the highest level of such in-service additions over the 2014 through 2018 period by a large margin of nearly \$200 million.

LPMA also notes that the \$858 million in each of 2021 and 2022 represents an increase of 12% over the average level of in-service additions in 2019 and 2020.

LPMA has a further concern related to the level of actual in-service additions as compared to the OEB levels over the three-year term of the current plan.

Ratepayers are protected from in-service capital additions being less than 98% of the OEB level through the capital additions variance account. However, there is no protection for ratepayers if the capital additions are in excess of the OEB approved levels. This concern is usually focused on the last few years of a normal Custom IR plan that is five years in duration.

Hydro One is incented to avoid over spending on capital additions because they do not earn a return on any overages during the term of the plan. However, given the short term of the proposed plan, this incentive has been greatly reduced. Hydro One would lose a return for effectively only two and a half years in overages in 2020, one and a half years on overages in 2021 and half a year on overages in 2022.

At the same time, upon rebasing these higher capital additions are included in the opening rate base calculation for the rebasing year (2023) and given the long life the assets the low depreciation rates, Hydro One will then earn a return on these overages for 40 or more years.

LPMA submits that the OEB should put in place a mechanism that removes the addition to rate base of any capital additions in 2020, 2021 or 2022 that are in excess of 102% of the OEB level of in-service capital additions. This is really a symmetrical treatment with the protection to ratepayers of under spending and provides ratepayers with protection for over spending.

10. Are the methodologies used to allocate Common Corporate capital expenditures to the transmission business and to determine the transmission Overhead Capitalization Rate appropriate?

LPMA has no issues or concerns associated with the methodologies used to allocate common corporate capital expenditures to the transmission business or related to the transmission overhead capitalization rate.

11. Is the proposed capitalization of other post-employment benefits (OPEB) for both Hydro One Transmission and Hydro One Distribution appropriate, and if not, what is the appropriate approach for these costs?

LPMA has had the opportunity to review the extensive submissions of OEB Staff in relation to this issue (OEB Staff Submission, pages 73 – 79). LPMA supports and adopts those submissions on this issue.

LPMA generally supports the reduction in OPEB costs that are capitalized. While this means that costs and rates may be higher now due to the movement of costs from capital to OM&A, the savings over the longer term are worth it. These savings include a lower cost of capital (both debt and equity) because of the lower rate base than if these costs are continued to be capitalized.

LPMA is made up of members that have invested in or manage equally long term assets, so the long term is important to them. In the longer term, customers end up paying more if the costs are capitalized.

While the added costs of continuing to use the OPEB deferral account is less, there is additional regulatory burden associated with this account, which in and of itself, is an additional cost paid for by customers.

12. Does Hydro One's Transmission System Plan sufficiently address the unique rights and concerns of Indigenous customers and rights-holders?

LPMA makes no submissions on this issue.

OPERATIONS MAINTENANCE & ADMINISTRATION COSTS

13. Are the proposed 2020 OM&A expenditures appropriate and is the rationale for planning choices appropriate and adequately explained?

LPMA has reviewed the submissions of OEB Staff related to the level of 2020 OM&A expenditures and their submission of a reduction in the level from \$374.1 million to \$363.6 million, or a reduction of \$10.5 million. However, LPMA's rationale is slightly different than that proposed by Staff.

Hydro One is proposing an increase of \$17.6 million, or more than 4.9%, in OM&A costs in 2020 as compared to the 2019 forecast. This is more than 2.5 times the current rate of inflation of 1.8%.

LPMA notes that the OM&A forecast for 2019 of \$356.5 million is significantly lower than the \$419.2 million spent in 2018. This reduction of \$62.7 million, or 15%, was primarily driven by a decrease of about \$25 million in common corporate costs and other costs and a \$29 million reduction in sustainment expenses. This is illustrated in Table 5 in Exhibit J1.1. While the common corporate costs do not increase significantly between 2019 and 2020, the sustainment costs do. It is the sustainment category that is of concern to LPMA.

LPMA notes that, as shown in Table 5 of Exhibit J1.1, Hydro One has underspent the planned amount in the sustainment category in every year shown. The underspending was \$5.1 million in 2015, \$26.0 million in 2016, \$23.1 million in 2017 and \$9.1 million in 2018, for an average level of underspending over this four-year period of nearly \$16 million.

LPMA is concerned that Hydro One has shifted sustainment spending from 2019 to 2020. As shown in Table 5 in Exhibit J1.1, the 2019 forecast is a reduction of nearly \$29 million from the actual level recorded in 2018. The 2020 forecast is an increase of nearly one-half of the 2019 reduction.

By shifting some of the sustainment spending from 2019 to 2020, Hydro One accomplishes two things. First, the return for the shareholder increases in 2019 as compared to spending more on sustainment in the bridge year. Second, it bumps up the level of 2020 OM&A which is the base upon which the I – X factor is applied for 2021 and 2022. In other words, Hydro One gets a higher return in 2019 and gets more in OM&A for three years.

LPMA submits that a reasonable and conservative approach to deal with this dip and increase in sustainment expenses taking into account the historical under spending compared to plan in this category is to reduce the forecast by one-half of the historical under spending over the 2015 – 2018 period. Specifically, the sustainment cost would drop from \$214.2 million by \$8.0 million to \$206.2 million.

The underspending from plan in the sustainment category also seems to contradict Hydro One's rationale for significant increase in capital expenditures related to the system renewal category. One would expect over spending compared to plan on sustainment not under spending if declining reliability was an issue.

In addition to the \$8.0 million reduction related to sustainment expenditures, LPMA submits that the OEB should approve a reduction of \$2.7 million related to regulatory related costs.

Hydro One confirmed in the response to Exhibit I, Tab 04, Schedule 17, the costs associated with the current application have been recorded in 2019 and there are no costs directly associated with the current application included test year 2020 revenue requirement.

As shown in Attachment 1 of Exhibit F, Tab 8, Schedule 1, the total costs associated with the current application total \$3.725 million and are shown in the second table of the attachment in the 2019 bridge year column. Hydro One confirmed that the amounts shown in the second table in lines 2, 4, 10 and 11 are included in the 2019 column in the first table in the attachment (Undertaking JT 2.35, Questions 1 & 3). As shown in the first table in the attachment of Exhibit F, Tab 8, Schedule 1, each of these expenses have been held at the same level as 2019 or increased in the 2020 test year forecast. This is despite the fact there will not be a major transmission rates case like the current one in 2020. LPMA submits that the 2019 of these expenses, \$1.725 million should be removed from the 2020 forecast of regulatory expenses.

In addition to the \$1.725 million noted above, the second table in the attachment shows \$2 million in legal costs associated with the current proceeding. These costs are not included in the regulatory costs shown in the first table, but are included in the legal department costs (Undertaking JT 2.35, Q4). Again, no reduction has been made in these costs despite there not being a major transmission rate case in 2020. LPMA submits the regulatory related legal costs associated with the current application of \$2 million should be removed from the 2020 forecast.

Hydro One argue that these amounts that total \$3.725 million should be retained in the

2020 forecasts because it will have other applications in 2020 and that it will occur costs related to the rebasing application for 2023 in 2020 through 2022.

However, when asked about how the other regulatory proceedings forecast to occur in 2020 differed from other regulatory applications that took place in 2018 and 2019 (other than the current rates application), Hydro One responded with a list of 3 Section 92 applications (Undertaking JT 2.35 – Question 2). However, Hydro One did not answer the question of how these applications differ from other applications in 2018 and 2019. LPMA can only conclude there is no significance difference.

With respect to incurring costs in 2020 through 2023 for the 2023 rebasing application, LPMA agrees with this, but not with the magnitude of what Hydro One proposed to build into rates. By including the full cost of \$3.725 million associated with the current proceeding into 2020 rates, Hydro One will actually recover three times this amount, or \$11.725 in rates over the 2020 through 2022 period.

In addition, LPMA notes that the 2023 rebasing application is to be a joint application for both transmission and distribution rates, and LPMA would expect that there would be significant cost reductions of combining two rate applications into one, both for the company itself, intervenors and the OEB.

LPMA submits that a reasonable estimate of the transmission share of a combined rates application for 2023 should be around \$3 million. This means that only \$1 million needs to be built into rates for 2020 as this will result in the recovery of \$3 million over the 2020 through 2022 period.

The resulting reduction in regulatory related costs in the 2020 cost of service is \$2.725 million (i.e. \$1.725 in regulatory costs + \$2.0 million in legal costs - \$1.0 million recovery).

The overall reduction in OM&A expenses for 2020 would be \$10.7 million (\$8.0 million in sustainment and \$2.7 million in regulatory related costs). This amount has been arrived at in a different methodology than that used by OEB Staff in their submission, but amounts to a reduction of the same magnitude.

14. Are the methodologies used to allocate Common Corporate Costs and Other OM&A costs to the transmission business appropriate?

LPMA is not making any submissions with respect to the methodologies used to allocate common corporate costs and other OM&A to the transmission business. Submissions

with respect to the overall level of OM&A are included under Issue 13 above.

15. Are the amounts proposed to be included in the revenue requirement for income taxes appropriate, including consideration of the Accelerated Investment Incentive (Federal Bill C-97)?

LPMA has reviewed the calculation of the incomes taxes as adjusted for the inclusion of the accelerated investment incentive from Bill C-97.

While LPMA is satisfied with the methodology, it does have concerns related to the forecast figures provided. In particular, it is not clear to LPMA that Hydro One has used up to date estimates for the accelerated investment incentive. The figures provided by Hydro One were provided soon after the enactment of Bill C-97 so there is a possibility that the calculations provided may change now that Hydro One has had more time to consider and review the impact of the changes.

LPMA notes that the calculation of the income taxes affects not only the 2020 rebasing application, but also the revenue requirement of the following years through the capital factor that includes income taxes in the capital related revenue requirement, as illustrated in Table 2 of Exhibit J8.5.

LPMA submits that the OEB should direct Hydro One to file an updated calculation of the accelerated investment incentive for each of 2020 through 2022 with enough detail to reflect Hydro One's current understanding of the incentive and to reflect any changes made by the OEB to capital expenditures/in-service additions as part of the draft rate order.

LPMA further submits that the calculation of the overall income tax in each of the three years should be included in the draft rate order at a level of detail sufficient detail for parties to review and determine the accuracy of the calculations.

16. Is Hydro One's proposed depreciation expense appropriate?

The following submissions with respect to depreciation deal with depreciation expense only and not amortization costs. LPMA has no issues with the level of amortization costs. LPMA also supports the updated depreciation study and resulting impacts on depreciation costs.

Hydro One is forecasting a massive increase in depreciation expense beginning in the 2019 bridge year and continuing over the 2020 to 2022 period. LPMA submits that the

magnitude of the increase is not supported by the evidence or the accuracy of Hydro One's depreciation forecast in the past.

As shown in Table 1 of Exhibit F, Tab 6, Schedule 1, Updated, the depreciation expense historically has been \$359.0 million in 2015, \$373.3 million in 2016, \$394.3 million in 2017 and \$411.5 million in 2018. The increase between 2015 and 2018 is \$52.5 million.

The forecast for 2019 is an increase of \$49.3 million in 2019 over 2018. This increase then sets the base for further increases in 2020 through 2022.

LPMA submits that based on Hydro One's proven inability to accurately forecast depreciation expense, the OEB needs to reduce the forecasts of these costs that affect not only the 2020 revenue requirement to be recovered through rates but also the capital factor through the inclusion of the forecasted depreciation expense in the total capital related revenue requirement. Depreciation (excluding amortization) is, in fact, the largest component of the total capital related revenue requirement, bigger than both the return on equity and the return on debt.

Given the impact of the depreciation expense on both the 2020 revenue requirement and the capital factor used in 2021 and 2022, it is imperative that a reasonable forecast of the level of depreciation expense is approved by the OEB.

Historically, Hydro One has provided anything but reasonable depreciation forecasts that have been approved by the OEB and found to be consistently and materially too high.

The response found in Exhibit I, Tab 12, Schedule 87 shows just how badly the depreciation expenses have been overstated over the 2015 through 2018 period. Specifically, the depreciation expense was \$21.9 million or 5.7% below the OEB approved level for 2015; \$17.8 million or 4.6% below the OEB approved level for 2016; \$28.3 million or 6.7% lower than the OEB approved level for 2017; and an eyepopping \$46.9 million or 10.2% lower than the OEB approved level for 2018. Over this four-year period, the actual depreciation expense averaged nearly \$29 million less than the amount included in the OEB approved revenue requirement. LPMA submits that this is one of the biggest, if not the biggest factor, in the continued over-earning by Hydro One noted in the response in Exhibit I, Tab 02, Schedule 24. In fact, a comparison of the level of over-earning in 2015 through 2018 shows a remarkable correlation with the level of over-forecasting the depreciation expense. For example, the largest over-earnings year shown in Exhibit I, Tab 02 Schedule 24 over this period was 2.08% in 2018 which coincides with the largest over forecast of the depreciation expense.

There is no evidence to suggest that Hydro One has, in any way, improved its forecasting methodology related to depreciation expense. They continue to use the half-year rule in the calculation of the depreciation expense (Exhibit F, Tab 6, Schedule 1, page 2). Hydro One has updated the depreciation rates, but as noted in the response to Exhibit I, Tab 04, Schedule 11, the new rates actually reduce the depreciation expense by \$4.3 to \$5.2 million per year in 2020 through 2022. Moreover, these new depreciation rates have not been applied to 2018 or 2019.

The adoption of new depreciation rates will not fix the problem of the inability of Hydro One to accurately forecast the depreciation expense, as the depreciation rates themselves are the same between those used on an actual basis each year and the OEB approved rates.

The variance in in-service capital additions also do not explain the inability to forecast the depreciation expense. In-service capital additions in any year account for only a small portion of the total assets that are used to calculate the depreciation cost. This lack of a significant relationship is illustrated in a comparison of Table 7 in Exhibit J1.1 and the response in Exhibit I, Tab 12, Schedule 87.

In 2018 the depreciation expense was 10.2% below the OEB approved amount while the in-service capital additions were only 2% below the OEB approved level. In 2017, the depreciation expense was 6.7% below the approved forecast, while the in-service capital additions were actually 1% higher than the approved forecast. In 2016, the depreciation expense was 4.6% below the approved forecast, while the in-service capital additions were only 0.2% below the approved level.

It should also be noted that the assets values used to calculate the depreciation cost are the gross asset values and not the net asset values used in the calculation of rate base.

LPMA notes that if the variance between actual and forecasted depreciation expense is not related to the depreciation rates and is not related in any meaningful way to variances in in-service additions there are only three sources of the variance left to consider. The first is in the variance of the opening gross assets each year. The second is related to the depreciation expense calculated on assets that become fully depreciated in the year and the third is the removal of the fully depreciated assets from the gross asset values used to calculate the depreciation. All three of these are related to one another.

Hydro One indicates it uses the half-year rule for in-service additions. This also means that Hydro One should be using the half-year rule for assets that become fully depreciated in the current year. Otherwise, the depreciation calculated on any asset that becomes fully depreciated would be more than the original cost of the asset.

For financial accounting purposes, LPMA assumes that Hydro One is properly reflecting the half-year rule in the year that an asset becomes fully depreciated. LPMA also assumes that Hydro is correctly removing fully depreciated assets from the gross assets used to calculate the depreciation expense.

It is not clear to LPMA that the same can be said for the regulatory forecast of depreciation expense. Given the fact that Hydro One has consistently had depreciation expenses that are significantly lower than the OEB approved figures in the 2015 to 2018 period, LPMA submits that there is clear and present bias in the forecast of the depreciation expense. Regardless of the source of this continuing problem, Hydro One has not made any changes to how it calculates the depreciation expense which ultimately leads to higher rates for customers and a higher rate of return for shareholders.

LPMA submits that the OEB should reduce the forecasted depreciation expense for each of 2020, 2021 and 2022. The OEB should also direct Hydro One to provide a study for the next rebasing application as to why the actual depreciation expense is always lower than that forecast by a wide margin.

As to the reduction in the depreciation expense, LPMA notes that average percentage over forecast in the 2015 to 2018 period, as calculated based on the response in Exhibit I, Tab 12, Schedule is 6.8%. Application of this percentage reduction to the forecasted depreciation expense shown in Table 1 of Exhibit F, Tab 6, Schedule 1 would result in reductions of \$31.4 million in 2020, \$33.2 million in 2021 and \$34.8 million in 2022.

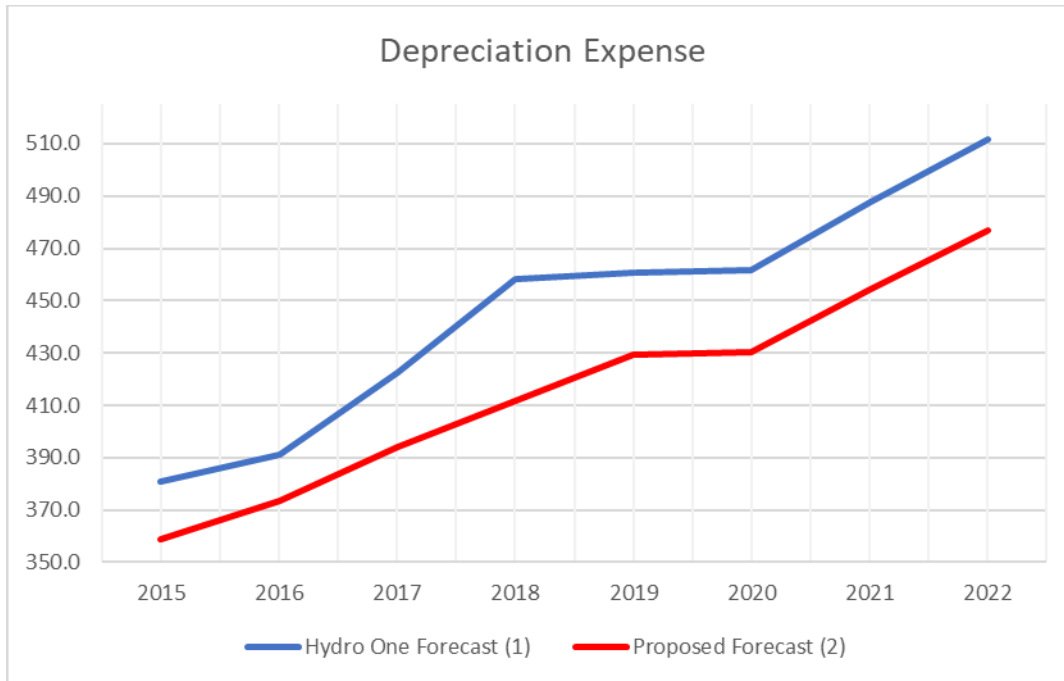
If the same 6.8% reduction was applied to the 2019 forecast, the reduction in the bridge year forecast would be \$31.3 million. The following table shows the actual and proposed depreciation expense based on Table 1 in Exhibit F, Tab 6, Schedule 1 and the 6.8% reduction proposed above. The OEB approved figures are taken from Exhibit I, Tab 12, Schedule 87.

	<u>Depreciation Expense</u>							
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Hydro One Forecast (1)	380.9	391.1	422.6	458.4	460.8	461.8	487.6	511.5
Proposed 6.8% Reduction					<u>31.3</u>	<u>31.4</u>	<u>33.2</u>	<u>34.8</u>
Proposed Forecast (2)	359.0	373.3	394.3	411.5	429.5	430.4	454.4	476.7

(1) OEB Approved figures for 2015 - 2018

(2) Actual figures for 2015-2018

These figures are shown graphically in the following chart. The proposed forecast reduces the depreciation expense in 2019 through 2022 that reflects the difference in the 2015 through 2018 OEB approved forecast and the actual depreciation costs for those years.



LPMA submits that the proposed reduction of 6.8%, based on the historical over estimate of depreciation costs is reasonable and should be adopted by the OEB. The large increase forecast by Hydro One between 2018 and 2019 and the continuation of this high level of depreciation in 2020 through 2022 is not reasonable and cannot be justified based on the historical inaccuracy of the Hydro One forecasts.

COMPENSATION COSTS

17. Are the compensation related costs appropriate?

LPMA is not making any submissions with respect to compensation related costs. Submissions with respect to the overall level of OM&A are included under Issue 13 above.

RATE BASE & COST OF CAPITAL

18. Are the amounts proposed for rate base (including the working capital allowance amounts) reasonable?

LPMA supports the methodology used by Hydro One to calculate rate base, subject to submissions above related to the level of capital expenditures and depreciation.

LPMA has reviewed the working capital allowance amounts and methodology and submits that the OEB should accept the amounts proposed as updated for any changes

related to the OEB decision on other matters in this proceeding that impact the working capital allowance amounts. Specifically, LPMA submits that the OEB should direct Hydro One to update the working capital allowance to reflect its decision as part of the draft rate order.

19. Is the proposed cost of capital (interest on debt, return on equity) and capital structure reasonable?

Hydro One updated the cost of capital to reflect the short-term interest rate and return on equity to reflect the figured provided by the OEB in its October 31, 2019 related to the 2020 cost of capital parameters.

In addition, Hydro One updated its long-term debt rate to reflect the actual debt issuances in 2019 (Exhibit I-4-LPMA-19) and the updated cost of capital parameters issued by the OEB on October 31, 2019. This reduced the long-term debt rate for 2020 from 4.57% (Exhibit G, Tab 1, Schedule 1, page 3) to 4.33% (AIC, page 112). While LPMA expects the 4.33% to be accurate, it is not aware of where this calculation has been provided to parties. LPMA submits that the OEB should direct Hydro One to file the relevant information to show the 4.33% long-term debt rate for 2020 in the draft rate order.

Subject to the concern noted above, LPMA believes that Hydro One's capital structure and cost of capital are consistent with OEB policy and previous Hydro One decisions and should be accepted by the OEB.

LOAD & REVENUE FORECAST

20. Is the load forecast methodology (including consideration of CDM impacts) and the resulting load forecast appropriate?

LPMA has no issue with the load forecast methodology, including the consideration of CDM impacts. LPMA also has no issue or concerns with the forecast for 2020.

However, LPMA does have concerns about the forecast for 2021 and 2022.

The concern with the 2021 and 2022 forecast is centered on the forecast shown in Table 3 of Exhibit E, Tab 3, Schedule 1. LPMA accepts the forecasts for the load impact of embedded generation and CDM as reasonable. However, the forecast of the load forecast before deducting the impacts of embedded generation and CDM do not appear to be reasonable.

Despite continued growth in provincial GDP, population, housing starts and other economic indicators used by the company, Hydro One is forecasting a decline of 30 MW

in 2021 and a further drop of 13 MW in 2022 in the Ontario demand. This follows increases in 2018 of 257 MW in 2018, 291 MW in 2019 and 392 MW in 2020. LPMA submits that this decline is not reasonable and is not supported by the forecast assumptions. How can continued economic growth result in a reduction in 2021 and 2022 when the economic growth in 2018 through 2020 results in significant increases in MW's?

Growth may not be as strong in 2021 and 2022 as it was in the previous years, so LPMA would not expect Ontario demand (before deducting the impacts of embedded generation and CDM) to increase at the same rate as shown for 2018 through 2020. However, the difference in growth between these two periods is not markedly different. As a result, LPMA submits that a reasonable increase in the Ontario demand load forecast before deducting the impacts of embedded generation and CDM would be an increase of 200 MW in each of 2021 and 2022, rather than the current forecast decreases of 20 MW and 13 MW, respectively. This figure is lower than the smallest increase shown for the 2018 through 2020 period (257MW) and nearly 50% lower than the growth shown for 2020 (392 MW). This forecast would result in the load forecast after deducting the embedded generation and CDM to be 230 MW higher in 2021 and 213 MW higher in 2020, resulting a forecast of 19,681 MW in 2021 and 19,517 MW in 2022. The average over these two years would be 19,599 MW, which is very similar to the figures shown for 2019 (19,595 MW) and 2020 (19,586 MW).

Given the small difference in the load forecast after deducting for embedded generation and CDM in 2021 and 2022 as compared to 2019 and 2020, LPMA submits that the OEB should approve a change in the Ontario demand forecast of 0% for both 2021 and 2022. This forecast is more reasonable than that provided by Hydro One under the assumptions of continued growth in GDP, population and housing starts, along with the other economic indicators used by Hydro One to forecast demand.

21. Are Other Revenue (including export revenue) forecasts appropriate?

LPMA submits that the OEB should increase the External Revenue forecast by \$9.4 million per year in each of 2020 through 2022. The reason for this increase is provided below.

As shown in Table 1 in Exhibit E, Tab 2, Schedule 1, the actual external revenues received in 2015 through 2018 was \$42.9 million. The forecast for 2019 is \$31.3 million. Table 2 in the same exhibit shows that the forecast for 2020 is \$31.4 million, for 2021 is \$32.7 million and for 2022 is \$32.2 million. Most of the decrease in revenue as compared to the historical period of 2015 through 2018 is related to secondary land use.

The Hydro One evidence states that the 2015 to 2018 historical external revenue from secondary land use was higher due to unbudgeted one-time transactions (Exhibit E, Tab 2, Schedule 1, page 4) involving easement grants and operational land sales. Hydro One indicates that such transactions are difficult to forecast.

LPMA submits that what is not difficult to understand is that Hydro One has consistently under forecast external revenues, as illustrated in Table 1 in Exhibit I, Tab 10, Schedule 17. As shown in this table, actual external revenues exceeded the OEB approved amounts by \$22.5 million in 2015, \$10.1 million in 2016, \$7.3 million in 2017 and \$10.9 million in 2018, for an average under forecast of \$12.7 million per year. Even with the elimination of the outlier in 2015, the average under forecast for 2016 through 2018 is \$9.4 million.

LPMA notes that all of the external revenues are covered with variance accounts that ensures the actual amount of external revenues goes to the benefit of ratepayers and that Hydro One is held whole.

LPMA submits that the proposed increase of \$9.4 million in each of 2020 through 2022 is reasonable based on the historical under forecast and that any variance will be tracked in variance accounts. The increase in external revenues proposed by LPMA will help mute the increase in the revenue requirement by providing more of the external revenues to ratepayers up front rather than waiting until 2023 to receive the benefits.

With respect to the ETS revenue forecast, LPMA submits that the OEB should direct Hydro One to increase the forecast to \$37.6 million in each of 2020, 2021 and 2022. This is an increase of \$1.7 million in each of 2020 and 2021 and \$1.3 million in 2022 from the levels forecast, as shown in Exhibit I2, Tab 4, Schedule 1, Updated, Table 2.

Hydro One uses a three-year rolling average methodology to calculate the export volumes. However, as shown in Exhibit I, Tab 10, Schedule 55, part (b), this results in an uneven weighting of the last three years of actuals. This is because the 2020 average includes 2017 actual and 2018 actual figures and a forecast for 2019, which is a straight average of 2016 through 2018 actuals. The resulting forecast for 2020, therefore puts more weight on the 2017 and 2018 actuals. In particular, the resultant weighting in the 2020 forecast is 11.1% for 2016 and 44.4% for each of 2017 and 2018. LPMA does not believe that this is the weighting that the OEB has intended the methodology to produce.

Using the three-year average of 2016 through 2018 actual volumes results in a volume forecast of 20,092,015 MWh and when multiplied by the ETS rate of \$1.85/MWh results in a revenue forecast of \$37.2 million.

Exhibit I, Tab 10, Schedule 44 provides the actual export revenues for each of 2016 through 2018 during which time the ETS rate was \$1.85/MWh. The average of these revenues is \$37.4 million.

Finally, LPMA notes that Hydro One states that export volumes have been on a clear downward trend since 2005 (Exhibit JT 1.36-Q1, part (a)). However, LPMA submits that this is not the case for 2019. In particular, as shown in the response to Exhibit J8.4 the actual export volumes for the period January through September, 2019 is about 4.5% higher than the actual export volume for the same period in 2017 and 8% higher than the same period in 2018. If this 8% increase over 2018 is extended for the entire year, then the \$35.38 million received in 2018 (Exhibit I, Tab 1, Schedule 44) would increase to \$38.2 million.

The average of the above three estimates (\$37.2, \$37.4 & \$38.2) is \$37.6 million, as proposed by LPMA. This estimate reflects the growth in exports through the first 9 months of 2019 and assumes no additional growth in 2021 and 2022. It also reflects a true three-year average of actual revenues.

LPMA notes that there is a variance account associated with ETS revenues that projects both Hydro One and ratepayers from forecast variances. Once again, LPMA believes it is more appropriate to use the higher forecast to ensure that ratepayers enjoy the benefit of higher export revenues now rather than waiting until 2023 to share in those benefits.

DEFERRAL/VARIANCE ACCOUNTS

22. Are the proposed amounts, disposition and continuance of Hydro One's existing deferral and variance accounts appropriate?

LPMA has reviewed the existing deferral and variance accounts and has no concerns or issues with the proposed amounts in the existing deferral and variance accounts to be disposed of. LPMA also has no concerns with the proposed disposition of the amounts. LPMA has reviewed the submissions of OEB Staff in relation to the continuance of certain deferral and variance accounts (OEB Staff Submission, pages 136-137) and adopts those submissions.

LPMA does have one concern related to the disposition of deferral and variance accounts. This concern centers around the accelerated investment incentive allowance related to Bill C-97 which increases the amount of capital cost allowance available for the deduction in calculating income taxes in the year that the capital cost item is placed into service.

On July 25, 2019, the OEB issued a letter regarding Bill C-97 in which utilities were directed to establish a separate sub-account of Account 1592 – PILS and Tax Variance – CCA Changes, specifically for the purpose of recording the impacts of the CCA rules changes for the period November 21, 2019 until the effective date of a utility's next cost-based rate order. Hydro One's evidence shows that they are following the OEB's guidance with respect to these CCA changes.

In the response to Exhibit I, Tab 1, Schedule 208, Hydro One provided an estimate of the impact on the revenue requirement in 2019 of this accelerated capital cost allowance to be about \$18.3 million.

LPMA submits that this amount should be refunded to ratepayers as part of the current application, rather than have this amount sit in a deferral account until rebasing occurs, which is scheduled for 2023. LPMA submits that the OEB should direct Hydro One to refund one-third of this amount, or \$6.1 million, through Account 1592 as part of the disposition of deferral and variance accounts in the current proceeding. This credit to ratepayers would nearly offset the proposed disposition of \$6.8 million in deferral and variance account balances, as shown in Exhibit J8.5. This would help reduce the rates revenue requirement and impact on rates now, rather than in 2023.

LPMA notes that the \$18.3 million reflected in Exhibit I, Tab 1, Schedule 208 is an estimate only and that the actual figure will not be known until sometime in 2020. However, this should not deter the OEB from refunding one-third of the amount in 2020 rates. The variance between this amount (and the corresponding amount built into 2021 and 2022 rates) and the actual amount can still be tracked in Account 1562 for later true up. This approach provides Hydro One with certainty of rebating the actual amount, while providing ratepayers with the immediate benefit of the 2019 revenue requirement reduction.

LPMA also submits that Hydro One should calculate the impact of Bill C-97 based on eligible capital assets that qualify for the accelerate capital cost allowance after November 20, 2018 and include that amount in the variance account for future true up with ratepayers.

23. Are the proposed new deferral and variance accounts appropriate?

LPMA has reviewed Hydro One's proposal for new deferral and variance accounts. LPMA supports the creation of the Foregone Revenue Deferral Account, the CCRA True-Up Variance Account and the ESM Deferral Account.

LPMA, does however, have concerns related to the proposed Transmission Revenue Requirement Variance Tracking Account. The need for this account is related to an appeal before the Divisional Court related to the tax benefits from Hydro One's recent IPO and is only needed if the appeal is successful. As the outcome of the appeal before the Divisional Court is unknown, LPMA submits that it would be premature to establish an account that may never be used. If the appeal is successful, then Hydro One can bring forward an application to establish the account.

COST ALLOCATION

24. Is the transmission cost allocation proposed by Hydro One appropriate?

LPMA has no issues or concerns associated with the proposed transmission cost allocation.

However, LPMA shares OEB Staff's concern, as expressed on pages 138 – 139 of the OEB Staff Submission, with the Hydro One proposal to formalize its practice with regard to energy storage facilities by amending the Terms and Conditions of the UTR rate schedule. LPMA submits that no change should be made until the OEB can consult with customers that may be affected and determine if the changes to the Terms and Conditions are appropriate.

EXPORT TRANSMISSION SERVICE RATES

25. Is the Export Transmission Rate of \$1.85 and the resulting ETS revenues appropriate?

LPMA supports the Hydro One proposal to maintain the ETS rate at the current level of \$1.85/MWh.

LPMA submits that there are several deficiencies in the recommended cost allocation study. The first key deficiency is that the current allocation methodology associated with capital costs allocates these costs between assets dedicated to domestic customers, assets dedicated to export customers and shared assets. These shared assets are not currently being allocated to export customers, even though the OM&A expenses associated with the shared assets are shared with the export customers (Tr. Vol. 8 Rev., page 149). During cross-examination (Tr. Vol. 9 Rev., pages 5 – 12), Hydro noted a number of deficiencies in the cost allocation methodology recommended by Elenchus and noted that the ETS rate would likely be higher than the current level of \$1.85 if shared asset costs were shared with export customers.

LPMA notes that based on an export volume of 18,800,000 MWh, the difference in the

export revenue between the current rate of \$1.85 a rate of \$1.21 as requested in Exhibit J7.8 is more than \$12 million. This would shift \$12 million in revenue requirement from export customers to domestic customers. LPMA submits that a shift of this magnitude should be based on robust evidence, which is lacking in the current proceeding due to the deficiencies identified in the current methodology.

LPMA also notes that the current ETS rate does not appear to be hindering export volumes. As shown in Exhibit J8.4, the actual export volume for the period January, 2019 through September, 2019 is up 8% from the same period in 2018 and 4.5% from the same period in 2017.

LPMA submits that the OEB should direct Hydro One to provide a cost-based ETS rate in its next rebasing application that includes the allocation of shared capital costs to export customers.

D. COSTS

LPMA requests that it be awarded 100% of its reasonably incurred costs. LPMA's consultant was unavailable to attend the hearing but ensured that most of LPMA's areas of concern were fully addressed through the interrogatory process and the technical conference process. Other areas of concern were fully addressed by other parties during the oral hearing. This ensured that there was no undue duplication of time and effort.

**ALL OF WHICH IS RESPECTFULLY SUBMITTED
December 16, 2019**

**Randy Aiken
Consultant to London Property Management Association**