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December 6, 2021

Christine E. Long
Registrar
Ontario Energy Board
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Long,

RE: EB-2020-0290 - Submissions of London Property Management Association on Rate Smoothing Proposal

In the November 15, 2021 Decision and Order, the Ontario Energy Board ("OEB") directed Ontario Power Generation ("OPG") to file its rate smoothing proposal and alternatives as part of the draft payment amount order. OPG filed the required information related to rate smoothing on November 29, 2021, in Appendix H of the Draft Payment Amounts Order ("DPAO").

This is the submission of the London Property Management Association ("LPMA") with respect to the OPG proposal for rate smoothing. LPMA is not making any submissions with respect to the accuracy of the draft payment amounts as it expects Board Staff will complete that review.

Chart 3 of Appendix H of the DPAO provides a summary of the smoothing alternatives provided by OPG, labelled as A, B & C, along with the illustrative impact of no deferrals as requested by the OEB. OPG proposes to use Alternative B.

LPMA generally favours an alternative that reduces the amount of interest that ratepayers will ultimately have to pay. In this instance, this is Alternative C, which results in interest costs over the 2022 through 2026 period of $12 million, as compared to $26 million in Alternative B. This saving to ratepayers of $14 million is a result of increasing the weighted average payment amount ("WAPA") in the first year to 5.0% from 4.0% in the OPG proposal and decreasing the WAPA by 1.2% in the third year, compared to the 0.2 decrease in the OPG proposal. The change in WAPA is the same in the second, fourth and fifth years between Alternatives B and C.

LPMA notes that the interest cost savings assumes interest rates remain at the current levels. LPMA is concerned that if interest rates rise over the next five years, the interest costs to be paid by ratepayers could increase significantly. LPMA believes that interest rates are more likely to rise than fall from the current low levels over the next five years.

While Alternative A has the highest deferral amount interest ($41 million) compared to the other alternatives, it also has the lowest increase in WAPA in 2022 at 3.0%, followed by the same rate of increase in years two, four and five, with an 0.8% increase in years as opposed to a 0.2% decrease in Alternative B. Given the current state of the economy and the ongoing impact of the COVID-19 pandemic, ratepayers would benefit from lower increases in costs in 2022.

With respect to the credit metrics shown in Chart 3, LPMA notes that Alternative A results in the weakest credit metrics, while Alternative C provides the strongest credit metrics.

With respect to the year-over-year variable in WAPA changes, LPMA notes that Alternative A has less volatility than Alternative B, which in turn, is has less Volatility than Alternative C.

LPMA submits that the OEB should take into consideration the potential for higher interest costs over the 2022 through 2026 period.

Based on the above submissions and the fact that the impact on ratepayer bills is small when comparing one alternative to another, LPMA submits that Alternative A should not be considered as appropriate because of the incremental deferral account interest cost that would accrue to ratepayers, especially if interest rates were to rise over the next five years and the fact that it results in the weakest credit metrics of the alternatives for OPG.

Should the OEB determine that the risk to ratepayers from incremental costs from rising interest rates is minimal, then LPMA would agree with OPG that Alternative B provides a more balanced option, balancing rate volatility, the impact on OPG's credit metrics and the additional interest costs that will be paid by ratepayers.

On the other hand, LPMA submits that Alternative C provides the best protection for ratepayers from the potential of rising interest rates, while having a minimal incremental impact on ratepayers in the first year (which would be reversed in the third year as compared to Alternative B), while also providing the strongest credit metrics for OPG.

OPG notes that the *"All three Alternatives result in similar average customer bill impacts an, as required by Regulation, result in more stable changes in the WAPA as compared to Illustrative Scenario D."* (DPAO, Appendix H, page 10, lines 14-16). OPG also notes the inherent uncertainties of longer-term forecasts in the same paragraph.

Given that Alternatives B and C result in similar average customer bill impacts in the first year which are effectively reversed in the third year and that Alternative C results in slightly better credit metrics for OPG, LPMA believes that the deciding factor of whether Alternative B or C should be approved comes down to ratepayer protection from the potential impact of rising interest rates.

LPMA submits that the OEB should approve the use of Alternative C. The potential for ratepayers to reduce interest related costs could be significant and it comes with a minimal cost of slightly higher rates in 2022. LPMA views Alternative C as an inexpensive insurance policy that could result in significant longer-term savings for ratepayers.

Sincerely,

Randy Aiken

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cc: OPG Regulatory Affairs opgregaffairs@opg.com