

February 8, 2022

Ms. Nancy Marconi  
Acting Registrar  
Ontario Energy Board  
2300 Yonge Street  
Suite 2700  
Toronto, Ontario, M4P 1E4

Dear Ms. Marconi:

**Re: EB-2021-0110 – Hydro One Joint Rate Application – Evidence Update & Schedule –  
Comments of London Property Management Association**

I am the consultant to the London Property Management Association (LPMA) in this proceeding. LPMA has reviewed Hydro One's letter of February 7, 2021 to the Ontario Energy Board (OEB) in which it requests the postponement of the Settlement Conference and proposes a revised schedule for the remainder of the proceeding. Hydro One states that this is necessary because it needs to update its evidence for a "material increase" in costs related to inflationary increases beyond what is included in the evidence.

LPMA has a number of concerns with the Hydro One proposal which are addressed below. These concerns fall into two major areas: the scope, or lack thereof, of the update to the evidence related to inflation expectations, a selective update of other evidence and the proposed schedule for the remainder of the proceeding.

**Evidence Update**

**a) Should the OEB allow Hydro One to Selectively Update the Evidence?**

Before determining if the selective update related to inflation is sufficient, the OEB needs to determine if the evidence update is justified.

Hydro One has called the impact of inflation a material change, but did not quantify the magnitude of this forecasted change.

The Hydro One letter states:

*"This new forecast represents an unexpected and material increase. The consequence is that based on the current forecasted costs for 2023-2027, Hydro One will not be able to achieve the associated volumes of work included in the investment plan for 2023-2027, since **the full inflationary impacts in 2021 and 2022 are not reflected in the 2023 forecast amounts. This impact will have a cumulative effect throughout the rate period, as forecast OM&A and capital expenditures will start from an inappropriate base amount in 2023.**" (emphasis added).*

In other words, Hydro One is saying that the inflation impacts in 2021 and 2022 are not reflected in the 2023 figures which is the base upon which underpins the revenue cap for the following years. For example, higher capital costs in 2021 and 2022 will impact opening rate base for 2023 and OM&A forecast costs in 2021 and 2022 will impact on the OM&A forecast level for 2023.

This is very similar to the submissions of a number of parties on the need for a blue page update. The OEB summed up these submissions on page 2 of the Decision on Blue Page Update, Confidentiality Request and Expert Evidence and Procedural Order No. 2 dated October 25, 2021:

*“AMPCO, CCC, CME, LPMA, Pollution Probe, SEC, and VECC all expressed support for a blue page update. Submissions filed by these intervenors noted how an update would provide parties with **access to the most recent information**; assist in reviewing Hydro One’s past performance and actual spending; **assist in establishing an appropriate opening rate base for 2023**; and allow for the disposition of an additional year of deferral and variance account balances. AMPCO, CME, LPMA, and VECC further noted **the importance of a blue page update given the impacts and associated uncertainty arising from the COVID-19 pandemic**.” (emphasis added)*

On page 3 of the Decision, the OEB stated that it *“finds that it will proceed assuming that a blue page update is not needed at this time”*.

LPMA submits that what Hydro One is proposing with its inflation related update is nothing more than a blue page update that is designed to arrive at the exact same thing that many intervenors submitted was why a blue page update should be required for 2021 actuals: an appropriate base amount for 2023. Now, instead of replacing the existing 2021 forecast of rate base and OM&A expenditures, Hydro One wants to replace them with an updated forecast rather than actuals. Similarly, the current forecast of OM&A would be replaced with an updated forecast, which may or may not be closer to actual costs.

As noted above, intervenors submitted that access to the most recent information was a driven for the need for the blue page update for 2021. Hydro One makes the same claim with respect to the most recent information related to inflation.

LPMA further notes, as seen above, that a number of intervenors highlighted the importance of a blue page update given the impacts and associated uncertainty arising from the COVID-19 pandemic. The increase in inflation which Hydro One is concerned about is driven to a large extent by production and supply chain bottlenecks, which in turn are directly related to labour and material shortages caused by the COVID-19 pandemic.

LPMA submits that the OEB already determined that blue (or whatever colour Hydro One chooses) page updates to reflect the most recent information for determining an opening rate base for 2023 and an appropriate level of OM&A for 2023 and dealing with the uncertainty related to COVID-19 were not sufficient to justify a delay in the proceeding. How can the OEB now acquiesce to the Hydro One delay in the proceeding for the exact same reasons?

#### **b) Is the Proposed Selective Update at the Envelope Level Sufficient**

If the OEB does accept the Hydro One request to update its evidence for a material change that results from changes in the inflation forecast, LPMA submits that the OEB should require Hydro One to do a full update of all of the evidence where the numbers will change due to the change in inflation assumptions. The OEB should also require Hydro One to update all interrogatory and undertaking responses that change as a result of the change in inflation assumptions. This includes the load forecast where any of the equations used to generate those forecasts use real energy prices or income in constant dollars as an explanatory variable.

Hydro One proposes to file an update that consists of information related to inflation assumptions and provided at an envelope level for both OM&A and capital. Clearly, what is important and vital to an effective and efficient regulatory process is to know what is in the envelope. Given the different make up of individual capital projects and OM&A expenditure categories, it is highly unlikely that changes in inflation assumptions would change costs across projects and categories proportionately.

Hydro One also indicates that they will be updating the associated bill impacts. Without the detail on a project by project basis and on a OM&A line by line basis, any bill impacts provided by Hydro One will be, at best, a guess. Capital projects are composed of many different assets and the allocation of these assets to rate classes is not the same. Similarly, OM&A expense categories are allocated based on different factors to rate classes. Without this detail information, accurate bill impacts are not possible. If Hydro One has accurate bill impacts, it means, by definition, it has costs at a detailed level. If they have this detailed level, they can update all the evidence that is changed.

If Hydro One is allowed to update on an envelope basis, a significant portion of the pre-filed evidence, interrogatory responses and technical conference answers and undertaking responses related to 2021 through 2027 costs are no longer accurate or even relevant. In most cases they will be inconsistent with the updated high-level evidence. Past and future costs cannot be reviewed at a level of detail below that of the envelope. This makes it almost impossible for intervenors and the OEB to conduct a proper review and find areas where reductions can be made.

LPMA submits that the OEB should direct Hydro One to update all pre-filed exhibits, interrogatory responses, technical conference answers and undertaking responses (both PDF files and Excel file) that are impacted by the change in inflation assumptions. Equally important is that this updated evidence needs to flow through to the revenue requirement calculations, cost allocation, rate design and bill impacts. Without this level of detail in the updated evidence, the OEB will not have a comprehensive record to form a reasonable basis for a decision.

### **Selective Update of Evidence**

The Hydro One letter makes mention that separate and apart from this inflation update, it will be in a position to provide a “mechanistic” update to its load forecast, and may also seek to file brief reply evidence from Clearspring in response to the evidence from PEG.

It is not clear to LPMA what the scope or nature of the load forecast update is related to or whether it would be material in magnitude. It is also not clear if the change in inflation forecast would change the load forecasts through explanatory variables that are adjusted for inflation such as household income in real dollars or real energy prices. LPMA submits that Hydro One should not be allowed to cherry pick which part of its evidence it wants to update.

With respect to the reply evidence from Clearspring, it appears to LPMA that Hydro One is ignoring the OEB finding that it “*does not find it necessary to provide for additional steps to allow for reply expert evidence by Hydro One at this time*” (page 14, Decision on Blue Page Update, Confidentiality Request and Reply Expert Evidence and Procedural Order No. 2 (dated October 25, 2021)). LPMA submits that this request should be denied.

If the OEB reconsiders the need for the reply expert evidence, then LPMA submits that it should also reconsider the need for a blue page update for 2021 actuals.

### **Proposed Schedule**

Hydro One attached a proposed revised schedule for the remainder of the proceeding. Without seeing the evidence update and without knowing the magnitude of the material increase referenced in the Hydro One letter, LPMA does not believe it can determine if the proposed schedule is material.

LPMA's concerns with the proposed schedule is right up front at the beginning of the proposed timetable. Hydro One has proposed that the OEB give it five weeks to prepare and file its evidence update that it says will be at the envelope level for OM&A and capital. Intervenors and Board Staff are then given only one week to review this evidence update and file interrogatories. Hydro One then gives itself one week to file responses to the interrogatories with the settlement conference to commence one week after that.

If the evidence update is at the envelope level for capital and OM&A as proposed by Hydro One, LPMA expects that parties, including LPMA, will ask Hydro One numerous interrogatories asking for updated parts of the more detailed evidence, as well as interrogatory and undertaking responses. Replying to a significant quantity of interrogatories is likely to take more than one week for Hydro One.

On the other hand, if the OEB directs Hydro One to do a comprehensive update of its evidence, interrogatory responses and undertaking responses, then it is quite likely that the intervenors and Board Staff will require more than one week to review the updated evidence and prepare a much smaller number of interrogatories. This in turn would likely enable Hydro One to provide responses within one week.

In either case, there would need to be more than two weeks between the receipt of the updated evidence and the provision of interrogatory responses.

Given the unknown impact and level of detail that will be included in the updated evidence and the unknown bill impacts at a rate class level, it is not known if intervenors could be prepared to begin settlement discussions with Hydro One one week after receiving interrogatory responses.

LPMA suggests that a reasonable approach to take at this time would be for the OEB to set a date for Hydro One to file its updated evidence – either as proposed by Hydro One or as directed by the OEB – and a subsequent date shortly thereafter for parties to make submissions on a proposed schedule going forward, starting with a date for interrogatories to be filed.

### **Summary**

If the OEB allows Hydro One to provide updated evidence, it should direct Hydro One to file updated evidence LPMA submits that it should direct Hydro One to update all pre-filed exhibits, interrogatory responses, technical conference answers and undertaking responses (both PDF files and Excel file) that are impacted by the change in inflation assumptions, including the evidence that flows from these changes (revenue requirement calculations, income taxes, cost of capital, cost allocation, rate design and bill impacts).

Given that Hydro One needs five weeks to come up with a high level envelope adjustment to OM&A and capital spending, LPMA submits that it will likely take at least ten weeks, or more,

for Hydro One to provide the detailed updated evidence noted above. This would take us into the middle of April or later. By then, Hydro One has indicated that its 2021 actual results would be available, so LPMA submits that the 2021 evidence and its impact on 2022 and subsequent years should be incorporated into the updated evidence.

Finally, the OEB should place the current proceeding in abeyance from February 4, 2022 (the day on which Hydro One indicated it could not proceed with the settlement conference) to the date on which Hydro One files all of the updates required.

Sincerely,

Randy Aiken  
Aiken & Associates

cc: Hydro One (by email)  
Intervenors (by email)