



March 14, 2019

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319, 27th Floor
2300 Yonge Street
Toronto, ON M4P 1E4

Re: EB-2018-0130 Hydro One Networks Inc. 2019 Transmission Rate Application
AMPCO's Final Submissions

Dear Ms. Walli:

Attached please find AMPCO's final submissions in the above proceeding.

Please do not hesitate to contact me if you have any questions or require further information.

Sincerely yours,

(Original Signed By)

Colin Anderson
President
Association of Major Power Consumers in Ontario

Copy to: HONI

Hydro One Networks Inc.
Application for 2019 Electricity Transmission Revenue Requirement

EB-2018-0130

AMPCO Submissions

Hydro One Networks Inc. (Hydro One) filed an application with the Ontario Energy Board (OEB) on October 26, 2018 under section 78 of the Ontario Energy Board Act, 1998 (OEB Act)¹, and under the OEB's Filing Requirements for Electricity Transmission Applications. Hydro One is seeking approval for changes to its electricity transmission revenue requirement to be effective January 1, 2019.

Hydro One proposes a Revenue Cap Index (RCI) approach to determine its 2019 transmission revenue requirement. Hydro One proposes that the OEB adopt the RCI and associated parameters that were proposed and are being considered in the proceeding arising out of Hydro One Sault St. Marie LP's (Hydro One SSM) application for approval of its 2019 revenue requirement.

Hydro One has proposed that the rate setting parameters (inflation and productivity factors) be approved on a preliminary basis based on the proposed parameters for the Hydro One SSM proceeding, with a variance account to true up to the parameters approved for Hydro One SSM.

In PO#1, the OEB asked that parties address three specific questions as follows:

1. Is it appropriate to use the rate setting parameters proposed for Hydro One SSM on a preliminary basis, or should another approach be adopted?

AMPCO submits it is appropriate to use the rate setting parameters proposed for Hydro One SSM on a preliminary basis. This is the approach put forward by Hydro One. The same 3rd party evidence underpins the proposed RCI in this application. The OEB has already determined it will not further test the benchmarking and total factor productivity evidence filed in the Hydro One SSM proceeding in this current Hydro One transmission proceeding.¹

2. What should be the nature of the proposed variance account? Should it true up to the approved parameters for Hydro One SSM, true up to parameters determined in Hydro One's Custom IR proceeding or some other option?

AMPCO submits the variance account should track the revenue requirement impact of differences between the proposed RCI parameters in this application (Inflation and Productivity Factors) and the final values approved by the OEB in the Hydro One SSM application (EB-2018-0218), where the 3rd party benchmarking evidence underpinning the RCI parameters is being tested and established.

Hydro One has proposed a two-step approach to adhere to the OEB's objective of a combined transmission and distribution application in the future. First, Hydro One proposes a one-year mechanistic adjustment to Hydro One's 2019 revenue requirement. Then in 2019, Hydro One plans to file a 3-year Custom IR application for 2020-2022 rates.

¹ PO#1 dated January 24, 2019 P1

AMPCO submits 2019 transmission rates should not be tied to parameters determined in a future application and then applied retroactively to 2019.

3. What additional evidence should Hydro One be required to file in its next Custom IR application with respect to the RCI parameters?

Hydro One's next 3-year Custom IR transmission application is proposed for 2020-2022 rates. AMPCO submits Hydro One should be required to file whatever evidence it determines is needed to support any RCI proposal at that time.

AMPCO notes that the PSE study filed in Hydro One SSM has some elements which are no longer relevant. These elements are the discussion regarding a Capital Factor and a forward-looking analysis which assessed Hydro One's forecast cost performance over a 4-year test period under a potential transmission system plan that is currently being re-evaluated by Hydro One. The forward-looking analysis may no longer reflect Hydro One's future total costs. The PSE study was initially commissioned in support of a Custom IR filing covering a 4-year test period (2019 through 2022).²

AMPCO submits if Hydro One's future 3-year Custom IR transmission application includes an RCI using the same parameters as proposed in the Hydro One SSM application, and possibly the addition of a Capital Factor, the PSE study will require updating so all elements of the study are relevant.

Hydro One indicates it intends to file an updated PSE study as part of its next rebasing application. The updated study will maintain the existing methodology but include a revised forward-looking analysis for the test period reflecting the OM&A and capital spending levels of Hydro One's revised business plan.³ AMPCO submits Hydro One should be required to file an updated study.

Other Issues

Revenue Cap Index (RCI)

Hydro One's 2019 revenue requirement is equal to the revenue requirement in 2018 inflated by an RCI equal to an Inflation Factor less a Productivity Factor ($RCI=I-X$).

Based on an inflation factor of 1.2% (latest OEB results) and Hydro One's proposed Productivity Factor of 0%, the proposed RCI for 2019 is 1.2%. Hydro One utilized Power System Engineering (PSE) to conduct its benchmarking analyses and inform its RCI. PSE's report is filed in the Hydro One SSM proceeding (EB-2018-0218) and will be tested in that proceeding.

AMPCO takes no issue with Hydro One's proposed RCI approach to setting rates for 2019.

AMPCO submits the Inflation Factor should be updated at the time of the rate order to reflect the Inflation Factor for 2019 rates, as proposed by Hydro One.⁴

² Ex A T4 S1 P2

³ Exhibit I Tab 1 Schedule 2

⁴ Ex A T4 S1 P4

Proposed Effective Date

Hydro One requests rates be effective January 1, 2019. AMPCO submits this request is not reasonable given that Hydro One only filed its application approximately two months earlier on October 26, 2018 and the first procedural order was issued on January 24, 2019. An effective date of January 1, 2019 was never feasible.

As part of its explanation why the effective date of January 1, 2019 is appropriate, Hydro One indicates it experienced organizational changes that included the appointment of a new Board of Directors in August of 2018, and that the organizational changes represent an exceptional circumstance out of the utility's control.⁵ AMPCO submits this internal challenge should not impact customers and it does not justify a January 1, 2019 effective date. AMPCO submits the effective date for rates in this proceeding should correspond to the implementation date of the rate order.

Rate Design

Hydro One is proposing to use the OEB-approved 2018 split of the rates revenue requirement by rate pool to allocate the 2019 rates revenue requirement among the three transmission rate pools.⁶

In Board Staff interrogatory #3, Hydro one indicates the 2018 rates revenue requirement includes the disposition of \$10.6M in 2017 foregone revenue, which has a unique split among the rate pools (-\$30.0M Network, +\$1.7M Line Connection and +\$17.7M Transformation Connection). The disposition of the foregone revenue distorts the 2018 rates revenue requirement split by rate pool and consequently Hydro One submits that the approach recommended by Board staff, as more appropriately derives the 2019 rates revenue requirement by rate pool.

AMPCO submits the derivation of 2019 Rates Revenue Requirement should follow the response to Board Staff interrogatory #3.

Deferral and Variance Accounts

Hydro One seeks approval of the disposal of regulatory accounts with a total credit balance of \$37.6 million.⁷ Hydro One seeks to refund this amount over a one -year period commencing January 1, 2019.

AMPCO supports the accounts and balances proposed for disposition and Hydro One's proposed 1-year disposition period. The OEB may wish to consider disposing of the credit balance over a shorter period to reflect an effective date beyond January 1, 2019 if the OEB determines that a January 1, 2019 effective date is not appropriate.

In-Service Capital Additions Variance Account

As part of the EB-2016-0160 Decision, the OEB approved the continuance of the In-Service Capital Additions Variance Account to record the impact on 2017 and 2018 Transmission Revenue Requirement

⁵ Exhibit I Tab 7 Schedule 1

⁶ Ex A T3 S1 P8

⁷ Ex A T6 S1 P3 Table 2

due to an actual amount for 2016, 2017 and 2018 in-service additions that are less than in-service additions embedded in rates for those years.

Hydro One indicates the next Transmission revenue requirement application will present audited balances as at December 31, 2018.⁸ As a result, AMPCO submits this account should be continued for 2019.

Costs

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

ALL OF WHICH IS RESPECTFULLY SUBMITTED March 14, 2019

⁸ Exhibit I Tab 10 Schedule 3