



April 12, 2019

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

Re: Hydro One Sault Ste. Marie LP (formerly Great Lakes Power Transmission LP)
AMPCO's Final Submission
Board File No. EB-2018-0218

Dear Ms. Walli:

Attached please find AMPCO's final submission 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: Hydro One Sault Ste. Marie LP

EB-2018-0218

Hydro One Sault Ste. Marie LP

Application for electricity transmission revenue requirement beginning January 1, 2019

AMPCO's Final Submissions

Hydro One Sault Ste. Marie LP (Hydro One SSM) filed an application with the Ontario Energy Board (OEB) on July 26, 2018 under section 78 of the *Ontario Energy Board Act, 1998, S.O. 1998, c. 15*, (Schedule B), seeking approval for changes to its electricity transmission revenue requirement to be effective January 1, 2019.

Hydro One's SSM application is a Revenue Cap Incentive Rate-setting application ("RCIR"). This approach is consistent with the OEB's Decision in the MAADS application where the OEB determined that Hydro One SSM's predecessor, Great Lakes Power Transmission Inc., could continue with its existing revenue requirement and file a new rate application, proposing a revenue cap index framework for the 10-year rebasing deferral period for the years 2017-2026 inclusive.¹ The OEB denied Hydro One SSM's 2017 Revenue Cap Index application on the basis there was insufficient evidence for the OEB to accept Hydro One SSM's submission that the productivity and stretch factors should be 0%. The OEB found the benchmarking evidence was insufficient to support the submission that Hydro One SSM is in the top cohort of efficiency.²

In this application, Hydro One SSM seeks approval of a proposed revenue cap index framework methodology to determine revenue requirement for the years 2019 to 2026 inclusive. If the proposed framework is approved by the OEB for the deferral period, Hydro One SSM proposes that subsequent annual applications would be based on a custom inflation measure and an X Factor of 0%, meaning the revenue requirement would increase annually at the rate of inflation.

For the 2019 revenue requirement (year 3 of the revenue cap adjustment period), Hydro One SSM proposes using its 2016 Board-approved revenue requirement³ as the base revenue adjusted by the required factors for the revenue cap index calculation: expected inflation, productivity and a stretch factor.

¹ EB-2016-0500 Decision

² EB-2016-0356 Decision

³ \$39,778,120 (2016 Base Revenue Requirement in EB-2014-0238)

Supported by Power Systems Engineering Inc. (PSE's) Total Factor Productivity Study⁴, Hydro One SSM proposes an inflation factor of 1.4%⁵, a productivity factor of 0%, and a stretch factor of 0.0%, resulting in an estimated adjustment in 2019 of \$556,894 and a revenue requirement of \$40,335,014.⁶

Although PSE does not consider the performance of Hydro One SSM, it addresses both the historical and future total cost performance and multifactor productivity trend of Hydro One Networks' transmission operations. And due to the pending integration, Hydro One SSM intends to adopt the inflation factor, productivity factor and stretch factor recommended by PSE's TFP study.

Pursuant to Procedural Order No. 5 dated March 14, 2019, below are AMPCO's final submissions on Hydro One SSM's PCIR application.

Revenue Cap Proposal

Inflation Factor

Hydro One SSM's proposed 2017 Revenue Cap proposal included an inflation factor based on a two-factor input price index that used component weights of 30% for labour and 70% for non-labour applicable to distributors. The OEB determined that evidence regarding the appropriate input weights for transmission should be included in any subsequent rate application by Hydro One SSM. In this application, Hydro One SSM adopts PSE's custom inflation factor calculation based on revised labour/non-labour weightings = $(0.14 * \text{growth in AWE}) + (0.86 * \text{growth in GDP-IPI FDD})$ to align with the electric transmission industry.

AMPCO has reviewed PSE's approach and sees it as reasonable.

Productivity & Stretch Factors

PSE calculated a negative industry TFP of -1.71% over the 2005-2016 sample period⁷ and recommended a productivity factor of 0% given that in previous Decisions, the OEB found that a negative X factor embedded within the escalation formula was inappropriate. PSE combined 0% productivity with a 0% stretch factor⁸ to arrive at an X factor of 0.0%.

⁴ D-1-1 Attachment #1, PSE Transmission Study for Hydro One Networks Inc: Recommended CIR parameters and Productivity Comparisons

⁵ Revised from 1.2% to reflect proposed labour/non-labour weightings applied to OEB Update issued November 23, 2018

⁶ HONI SSM AIC P8; Adjustment to be finalized as part of Rate Order

⁷ D1-1-1 Attachment #1 P2

⁸ PSE Total cost benchmarking result shows Hydro One is 31.8% below its benchmark costs throughout the test year period for Hydro One Transmission's rate application (2019 to 2022).

Pacific Economics Group (PEG), OEB Staff's consultant, provided an alternative outcome to PSE on the appropriate productivity and stretch factors to be applied; although PEG's proposed X factor is also 0%.

PEG's report "Empirical Research for Incentive Regulation of Transmission", dated February 4, 2019⁹, provided a review of the evidence prepared by PSE with respect to the total cost performance and total factor productivity trends of Hydro One Networks Inc. transmission (Hydro One Transmission) relative to a comparator sample of U.S. electricity transmitters.

PEG's recommendation is to combine a -0.34% base productivity trend drawn from U.S. multifactor productivity (MFP) research for the full sample period with a 0.30% stretch factor which produces an X factor of 0%.¹⁰

As part of the RRFE framework regarding rate setting parameters, the OEB stated it does not believe it appropriate for a rate setting regime to project and entrench declining productivity expectations into the future. The Board has determined that where the estimate of achieved long-run Industry TFP is negative, the productivity factor used in the rate-adjustment formula to set rates will be set to zero.¹¹

Accepting previous OEB decisions that productivity should not be less than 0%, AMPCO submits this same logic should be applied to PEG's negative industry TFP such that the negative 0.34% productivity becomes 0% and when combined with a 0.30% stretch factor, the X factor is 0.30%.

AMPCO has reviewed PEG's analysis of PSE's evidence related to TFP and cost benchmarking and supports PEG's concerns. These concerns prompted PEG to develop their own U.S. transmission productivity study using preferred methods and data for a similar group of companies over a longer 1996-2016 sample period. It also prompted PEG to benchmark Hydro One Networks' total cost with PEG's own econometric model. AMPCO agrees with PEG that a longer sample period makes estimates of the parameters of the PEG model more accurate.

In considering the above, AMPCO recommends the PEG approach be approved by the OEB, with the above adjustment to set productivity at 0% resulting in an X factor of 0.30% to align with the OEB's view that productivity should not be less than 0%.

The Transmission Filing Requirements dated February 11, 2016, describe the purpose of productivity and stretch factors as the "sharing of benefits" for a revenue cap index. An X factor of 0.30% for Hydro One SSM will ensure that customers share in the benefits derived

⁹ Ex M1

¹⁰ Ex M1 P23

¹¹ EB-2010-0379 Report of the Board Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors P17

from the incremental productivity gains that transmitters are expected to achieve under Incentive Rate-setting.

Earnings Sharing Mechanism (ESM)

Hydro One SSM proposes to share with customers, on a 50:50 basis, all earnings that are more than 300 basis points above its OEB-approved ROE after the initial 5 years of deferred rebasing period (years 6-10). AMPCO submits the proposed ESM is consistent with the MAADs decision.¹²

Calculation of Revenue Requirement

Hydro One SSM proposes to reduce the 2019 revenue requirement by disposing of a credit balance of \$94,909 from its existing deferral and variance accounts. The \$94,909 includes the credit balance of the In-service Addition Net Cumulative Asymmetrical Variance Account. As part of GLPT's 2015 & 2016 rates application (EB-2014-0238), the parties agreed to create the account for the test years to track the impact on revenue requirement of the cost of in-service additions during the test years.¹³ In Hydro One SSM's 2017 rates application, it was determined that the cumulative in-service additions for 2015 and 2016 were less than the Board-approved amount and the variance was \$927,185.¹⁴

Given the nature of the variance account and its direct impact on 2016 revenue requirement, AMPCO submits the revenue requirement impact of the credit balance in the In-service Addition Net Cumulative Asymmetrical Variance Account should be deducted from the 2016 Board-approved revenue requirement to be used as the base revenue adjusted by the price cap index to set 2019 revenue requirement.

Under this proposal, the intent of this account has been met and it will no longer be required in the future. AMPCO submits the In-service Addition Net Cumulative Asymmetrical Variance Account should be closed.

Transmission System Plan

Hydro One SSM filed its first Transmission System Plan¹⁵ (TSP) in response to the OEB's direction to file a comprehensive TSP as per an outstanding settlement commitment made in EB-2016-0356¹⁶ by its predecessor GLPT. GLPT had agreed to undertake a more detailed and comprehensive asset management plan as part of its next rate application.

¹² EB-2016-0050 Decision P12

¹³ EB-2014-0238 Settlement Agreement P6

¹⁴ EB-2016-0356 5-VECC-20

¹⁵ B1-1-1

¹⁶ 2017 Rate Application P10

For the reasons discussed below, AMPCO submits the OEB should not provide any specific approvals of Hydro One SSM’s TSP. First, Hydro One SSM is not filing the TSP to support any additional capital funding requests.¹⁷ Hydro One SSM states “the TSP filed as part of this application is not directly in support of any changes or relief related to its Revenue Requirement.”¹⁸ Second, the OEB has repeatedly determined in other applications that it does not specifically approve system plans between rebasing years. Rather, these plans are used to provide context when approving ICMs. Third, the TSP reflects the state of integration work between Hydro One SSM and Hydro One.

The TSP’s planned investment levels total \$85.7 million for the period 2018 to 2026 inclusive.¹⁹ Hydro One SSM indicates its proposed spending levels are in line with the needs of the asset base as demonstrated by the Asset Condition Assessment (ACA) performed by METSCO Inc. in July 2018.²⁰

Hydro One SSM indicates that the ACA undertaken by METSCO is its first ACA. AMPCO wishes to point out that Hatch undertook an assessment of GLPT’s assets and operations in July 2016, just prior to the acquisition of GLPT by Hydro One, and produced a 10-year capex projection to 2025. Hatch used asset condition analysis, reliability of supply risk assessment, history of operations experience and prior sustaining capital works to define the individual asset projects requiring corrective attention including replacements.²¹

The table below provides a comparison of the recommended level of capital investment between the MAADs application and this application for the years 2018 to 2026, the deferred rebasing period.

	2018	2019	2020	2021	2022	2023	2024	2025	2026	Total
EB-2016-0050 Hatch ACA	16.2	17.6	18.6	17.5	20.6	19.9	18.3	17.4	17.8	163.9
EB-2018-0218 METSCO ACA	6.5	7.2	10.7	10.7	11.5	9.4	10.8	10.4	8.5	85.7

The difference between the two capital plans is substantial. The current Capex level supported by METSCO is approximately 50% less than Hatch’s recommended Capex. METSCO reviewed other reports in preparing its ACA but it did not review the Hatch report.²² It’s unclear to AMPCO why METSCO would not have undertaken this review. The benefit of having the same consultant undertake consecutive ACAs is consistent methodology, reliable results and asset health changes over time can be monitored. It’s unclear why Hatch was not considered to undertake the ACA in 2018 to support the TSP. The reasons for the variance between the two

¹⁷ B1-1-1 P2
¹⁸ I-5-4
¹⁹ B1-1-1 P4 Table 1
²⁰ AIC P15
²¹ AMPCO 8 Attachment #1 P
²² Transcript Volume 1 P139

ACAs have not been fully explained but regardless it highlights that with respect to asset management, different 3rd party consultants can arrive at significantly different outcomes and spending proposals.

Hydro One SSM expects the volumes and timing of specific investment types to fluctuate year-to-year within the funding envelope provided by the index-adjusted revenue requirement,²³ and at this point it has no plans for an ICM prior to 2026.²⁴ It appears Hydro One SSM will be able to manage its capital plan through the revenue established through the index. In considering the above, AMPCO submits the OEB should not make a determination on the TSP. As integration continues, Hydro One SSM's transmission planning activities and outputs are expected to be presented as a part of Hydro One's TSP.²⁵ Once this has been achieved, AMPCO submits Hydro One SSM should be required to file this plan with the OEB.

Z-Factor

Hydro One SSM seeks to establish a new Z-factor Deferral Account 1572 to recover the material costs associated with any unforeseen event that is outside the control of Hydro One SSM, and which meets the defined causation, materiality and prudence criteria. AMPCO wishes to point out that at the same time, Hydro One SSM has removed transmission line/station emergency work (\$1,444.9 million) and transformer contingency (\$8,711.6 million) from its capital plan.²⁶

Performance Scorecard

The OEB found that the proposed scorecard for 2017 was incomplete. The OEB stated that Hydro One SSM falls short of the OEB expectations for performance measure metrics, each with specific performance outcomes and implementation timelines.

In this application Hydro One SSM provided an updated scorecard with targets to 2023.²⁷ As Hydro One SSM is integrated with Hydro One, Hydro One SSM proposes to adopt Hydro One SSM's scorecard metrics and methodologies. AMPCO submits this approach is appropriate.

The Hydro One SSM proposed scorecard has more than 70% of the metrics that are aligned with the current Hydro One's Transmission scorecard.²⁸ The following measures are in HONI's Tx scorecard but not included in HOSSM's proposed scorecard.²⁹

- T-SAIFI-M (Ave. # of Momentary interruptions per Delivery Point)
- OM&A Program Accomplishment (composite index)

²³ B1-1-1 P5

²⁴ I-4-1

²⁵ B-1-1 P3

²⁶ B2-2-1 P16 table 6

²⁷ I-5-14

²⁸ I-1-44

²⁹ I-4-31

- Capital Program Accomplishment (composite index)
- O&M Expenditure per Gross Book Value of In-Service Assets (%)
- Line Clearing Cost per kilometer (\$/km)
- Brush Control Cost per Hectare (\$/Ha)
- End-of-Life Right-Sizing Assessment Expectation

Both momentary (less than 1 minute in duration) and sustained interruptions (equal to 1 minute or more in duration) are currently included in the System Reliability metrics.³⁰ The frequency of momentary outages has a significant impact on AMPCO members. Given that Hydro One SSM currently has the data and Hydro One tracks this data, AMPCO submits the T-SAIFI reliability metric should be divided immediately into momentary (“T-SAIFI-M”) and sustained outages (“T-SAIFI-S”). AMPCO sees no reason why Hydro One SSM should wait for integration with Hydro One.

Hydro One SSM indicates it is prepared to submit an updated Scorecard in 2023. AMPCO submits an updated scorecard in 2023 is appropriate and would be beneficial.³¹

Effective Date

Hydro One SSM filed its application July 26, 2018. Hydro One SSM requests that the proposed revenue requirement be reflected in rates effective January 1, 2019, five months after the application was filed.

AMPCO takes no issue with Hydro One SSM’s proposed effective date of January 1, 2019. As a means of managing the Price Cap and Annual Index applications, the OEB established four filing dates for distributors between August 13, 2018 and November 5, 2018. The application filing deadlines for each group were determined so that, in the normal course of events, a decision would be issued in time for a January 1 or May 1 implementation date.³² Hydro One SSM filed its application in advance of the first filing date of August 13, 2018.

If the OEB accepts Hydro One SSM’s proposed effective date, the establishment of a sub-account within deferral account 1574 to record revenue deficiencies incurred from January 1, 2019 until Hydro One SSM’s proposed 2019 revenue requirement and rates are implemented, will not be required.

³⁰ I-4-29

³¹ I-1-51

³² Cover Letter Filing Requirements July 12, 2018