March 20, 2009

VIA RESS & COURIER

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

Dear Ms. Walli:

Re: Hydro One Networks Inc.
Electricity Transmission Revenue Requirement Change
Submission of AMPCO's Argument
Board File No. EB-2008-0272

In accordance with the argument schedule directed by the Panel Chair during the Oral Hearing on March 3, 2009, attached please find AMPCO's argument.

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

Sincerely yours,

ORIGINAL SIGNED BY

Adam White

Copies to: Glen MacDonald, Hydro One Networks Inc.
Intervenors (email)

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ONTARIO ENERGY BOARD

IN THE MATTER OF *the Ontario Energy Board Act, 1998;*

AND IN THE MATTER OF an Application by Hydro One Networks Inc.
For an Order or Orders approving rates for the transmission of electricity

AND IN THE MATTER OF Final Submissions of AMPCO

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PART I. AMPCO's HIGH 5 RATE DESIGN

1. Overview of AMPCO's position with respect to rate design

AMPCO's intervention in Hydro One Transmission's rate application was, principally, intended to put before the Ontario Energy Board (the "Board) a rate design which promotes efficient load management and encourages peak shifting and conservation and to request that the Board order Hydro One Networks Inc. ("Hydro One") to adopt this new rate design for Network Charges.

AMPCO has for some time suggested that Hydro One's rate design should be changed but has been unable to persuade the Board as to the merits of its proposal. The Board has been concerned that AMPCO's rate design has been vague and AMPCO's submission lacked evidence about its impact on customers who were not AMPCO members.

AMPCO has continued to hear its members and other Hydro One customers express their frustration with the current rate design. Customers complain that the rate design is an impediment to demand management, is arbitrary, provides price signals to reduce demand when demand response has no value, and fails to provide sufficient price signals when demand response is immensely valuable.

Examination of the AMPCO Panel, Transcript dated March 3, 2009, page 14, lines 3-11

In response to these ongoing complaints, AMPCO intervened in this hearing to present to the Board a rate design which does what its members and other designated Hydro One customers want. AMPCO has taken care in its evidence, written and oral to present a very specific proposal.

It has also invested in producing robust evidence that the proposal will benefit not only AMPCO members, but all customers of Hydro One.

AMPCO submits that the rate design it proposes will be effective, economically efficient, just, reasonable, and predictable. In each of these respects, we submit, AMPCO's proposal is superior to the existing rate design.

AMPCO submits that since its proposal is well understood by the relevant stakeholders, the Board order Hydro One to implement the new rate design so that it would apply in the 2010 calendar year, on the basis of calendar 2009 results with limited stakeholder consultation on only practical implementation issues.

2. Overview of the current and proposed rate designs

(a) Current rate design

Under the current rate design, a customer's Network Charge comprises about 6% of a Hydro One customers normal bill and is calculated as a product of the Network Charge Rate and the customer's demand. It is determined monthly.

A customer's demand for the purpose of this calculation is determined as the higher of (i) the customer's demand at the time of Ontario's monthly coincident peak demand and (ii) 85% of the customer's maximum non-coincident demand between 7:00 a.m. and 7:00 p.m. on weekdays that are not holidays.

Hydro One Application, Exhibit H1, Tab 3, Schedule 1 at page 1, lines 21-23

Examination of Hydro One Panel 4, Transcript dated March 2, 2009, at page 8, line 3 per Mr. Roger

The Network Charge Rate for a given year is the Board-approved Network Pool revenue requirement divided by the sum of all customers' forecasted Network Charge Determinants for the year. The forecast of Network Charge Determinants is a load forecast for the applicable transmission delivery points.

(b) Proposed rate design

AMPCO proposes that a fixed monthly network charge be calculated for each customer based on that customer's demand during the hour of peak demand in the 5 highest peak days of the previous year (the "**High 5 Proposal**").

Under the High 5 Proposal, a fixed monthly Network Charge is calculated as follows:

(i) The IESO determines the hour of Ontario peak demand for each day of the year and identifies the 5 highest peak days of the year;

(ii) The coincident demand for each transmission customer account is determined from metering data for the peak hour on each of the five peak days;

(iii) An individual Network Charge Determinant for each customer is calculated by averaging the customer's coincident peak demand for the 5 peak days;

(iv) The Network Charge Rate for a given year is the Board-approved Network Pool revenue requirement divided by the sum of all customers' calculated Network Charge Determinants for the year;

(v) Each customer's monthly Network Charge is calculated by multiplying the Network Charge Rate by the customer's individual Network Charge Determinant.

AMPCO's pre-filed evidence, page 12

AMPCO's evidentiary brief, Exhibit K6.1, slide 3

Examination of AMPCO Panel, Transcript of March 3, 2009, page 20, lines 5-23

The calculation is repeated each year based on the prior year's customer demand.

Under the High 5 Proposal, the customer's Network Charge remains the same for each of the 12 months of the year.

AMPCO has also proposed how the monthly Network Charge would be calculated for new customers who do not have historical demand data.

For details, see AMPCO's interrogatory responses, Exhibit I, Tab 15, Schedule 2, response (a)

The High 5 Proposal is inspired in part by successes in other jurisdictions. Other North American jurisdictions already set transmission network charges with reference to a customer's consumption during a limited number of coincident system peaks. For example, PJM Interconnection member LDCs calculate transmission tariffs with reference to customers' demand at 5 coincident system peaks, June through September, and then set the rates for the following year. The Electric Reliability Council of Texas ("**ERCOT**") calculates transmission tariffs with reference to 4 coincident system peaks during the same four summer months. PJM Interconnection is a regional transmission organization that coordinates the movement of wholesale electricity in all or parts of 13 states and the District of Columbia. ERCOT operates the electric grid and manages the deregulated market for 75 % of the state of Texas.

Examination of AMPCO Panel, Transcript dated March 3, 2009, page 82, lines 22-28 and page 83, lines 1-9

AMPCO's responses to undertakings, Exhibit J6.6

3. AMPCO's Principles of Sound Rate Design

We submit that an effective rate design is one that allows Hydro One to provide safe and reliable service at a reasonable cost by reducing the stress on the transmission system.

In general, Hydro One designs, builds and maintains the transmission system to accommodate the maximum load that the system is expected to experience. That maximum load in a given year corresponds to the highest of the coincident system peaks during that year.

Examination of Hydro One Panel 4, Transcript dated March 2, 2009, page 11, line 5: Mr Roger confirmed that, "[t]he system is built to supply the maximum capacity."

To reduce system demand, an effective rate design must encourage customers to shift their demand away from these highest coincident system peaks, thereby reducing stress and demand on the system and long term costs.

Shifting demand away from lesser coincident system peaks confers little or no benefit of the transmission system. To the extent that a rate design encourages such demand shifting, it is ineffective.

> Examination of Hydro One Panel 4, Transcript dated March 2, 2009, page 10, lines 25-28, continuing at page 11, lines 1-6. Mr. Roger agreed with the following statement by Mr. Crocker: "And when peaks occur in the shoulder seasons -- the fall, the spring, and even during the winter, when the system once again is not stressed quite the way it is during the summer -- the system doesn't get any benefit from a customer avoiding using power at -- using electricity at its peak in any given month during those shoulder seasons. The system doesn't benefit."

(a) <u>The current rate design is ineffective at reducing stress on the system</u>

The current rate design is ineffective in achieving the goals described above for three reasons: (1) it limits the incentive to avoid any of the system peaks; (2) it provides an incentive to avoid peaks that do not stress the system; and (3) it may not provide an incentive to avoid the highest peaks.

(i) First, the current rate design limits the incentive to customers to avoid any of the system peaks. Even if a customer were able to reduce its load to zero at the Ontario monthly coincident peak, its charge determinant would still be 85% of its non-coincident demand between 7:00 a.m. and 7:00 p.m. on weekdays that are not holidays.

> Examination of Hydro One Panel 4, Transcript dated March 2, 2009, page 8, line 17-22. Mr. Roger agreed with the following statement by Mr. Crocker: "If the customer's objective is to avoid using electricity at its peak during the month, the best that that customer can do is to present a demand which is 85 percent of his -- of its highest demand."

A rational customer would, therefore, not spend the time or money to attempt to reduce its demand during the Ontario monthly coincident peak any lower than 85% of its non-coincident peak demand. The current rate design significantly mutes any incentive to shift demand at the Ontario monthly coincident peak.

(ii) Second, the current rate design provides some incentive to Hydro One customers to reduce peak demand when doing so produces little or no benefit for the transmission system. since charges are determined monthly and so customers are encouraged to avoid monthly peaks, regardless of whether the monthly peak stresses the system.

Not every month will experience the type of extreme peak that drives the need for Hydro One to upgrade the transmission system. In fact, system coincident peaks have recently tended to cluster in the summer.

> Examination of Hydro One Panel 4, Transcript dated March 2, 2009, page 9, lines 8-9: Per Mr. Roger: "I believe we are a summer-peaking utility now." and, page 9, lines 11-13 per S. But: "Right now, in the last few years, yes, we have higher peaks experienced in the summer."

> Examination of Hydro One Panel 4, Transcript dated March 2, 2009, page 11, line 24-27. Mr. Roger agreed with the following statement by Mr. Crocker: "In fact, there could be more than one [extreme peak] during any given day during the summer months."

Providing an incentive to curtail loads during months with lesser peaks is at best pointless and at worst unnecessarily burdensome for customers that incur curtailment costs for no reason.

As Mr. MacDonald put it, the current system "doesn't make sense" to the extent that it provides a "disincentive to use the transmission system in a month or in periods of time when the system isn't loaded and historically isn't loaded."

> Examination of AMPCO Panel, Transcript dated March 3, 2009, page 23, lines 17-26

(iii) Third, the current rate design does not provide an incentive to avoid all of the highest peaks. The current rate design only takes into account the single highest coincident system peak

in a given month. Customers, therefore, have no incentive to reduce their demand more than once in a given month, even if more than one of the year's highest peaks occurs in that month.

> Examination of Hydro One Panel 4, Transcript dated March 2, 2009, page 12, line 3-7: Mr. Roger agreed with the following statement by Mr. Crocker: "There is no incentive for the customer to avoid those multiple peaks. There is only -- he gets only or it gets only the benefit of avoiding one per month."

We submit Hydro One will best be able to avoid or defer upgrades to the transmission system if all of the extreme peaks are reduced. The current rate design does not contribute to this.

(b) AMPCO's High 5 Proposal targets the highest peak loads that stress the system

AMPCO's High 5 Proposal will be much more effective in reducing stress on the transmission system for three reasons: (1) it provides a demonstrably effective incentive for customers to avoid the highest system peaks; (2) it focuses demand reduction efforts on the peaks that most stress the system; and (3) it addresses the fact that more than one of the highest peaks may occur in a single month.

(i) First, the High 5 Proposal creates a real financial incentive for customers to reduce their demand during the 5 highest coincident system peaks. Econometric modelling and practical experience both strongly suggest that the incentive is sufficient to produce significant demand reductions during system peaks.

AMPCO's econometric model provides statistically significant evidence that the High 5 Proposal will prompt industry to shift demand off coincident system peaks. The model was prepared in consultation with Dr. Anindya Sen, an expert in econometric analysis of energy policy issues, using IESO price and demand data from 2007 and 2006.

The model proves that industrial users respond to higher prices by shifting demand from peak periods to off peak periods. It revealed statistically significant decreases in demand during peak periods as a result of price increases. It also revealed corresponding increases in demand during the off peak periods that follow.

AMPCO pre-filed evidence, Expert report of Dr. Anindya Sen, dated January 7, 2009

Examination of the AMPCO Panel, Transcript dated March 3, 2009, page 29, starting at line 15 through page 33, line 7

AMPCO's response to Undertaking J6.3

Using this model, AMPCO added a shadow price equal to the potential value of annual transmission cost savings from demand reduction under the High 5 Proposal to the average Hourly Ontario Energy Price ("**HOEP**") during peak periods. The shadow price reflects a sophisticated industrial user's understanding of the true economic cost of transmission. The shadow price produced a significant shift of industrial demand from peak periods to off-peak periods. The incentive in the High 5 Proposal is, therefore, sufficient to prompt meaningful demand shifting by industry.

> AMPCO undertaking responses, Exhibit J6.3, pages 2-3: Annual transmission cost savings from demand reduction were estimated to be $30,800 per MW-year, which corresponds to a shadow price of $102.80 per MW-hour of demand reduction (in contrast, the existing rate design has a meagre shadow price of between $8.27 and $9.58: see AMPCO undertaking responses, Exhibit J6.1, page 1). Based on a 2007 summer average HOEP of $57.50, the addition of this shadow price produces an average hourly decrease in demand during peak hours of 29 MW and a subsequent increase in demand during off peak hours of 24 MW.

The predictions of the model are consistent with basic economic theory, as Dr. Sen pointed out during the hearing:

> "So what's interesting and compelling about these results is that they correspond so well to economic theory, simple economic theory of what we would expect, that, yes, firms do have an incentive to reduce demand during peak hours."

Examination of AMPCO Panel, Transcript dated March 3, 2009, page 32, lines 21-25

The predictions of the model are also consistent with the real world practical experience of at least one AMPCO member. Gerdau Ameristeel's experience in the PJM jurisdiction shows that

a transmission rate design based on five coincident system peaks offers sufficient incentive to change the way a large consumer does business. Mr. MacDonald identified the capital investments and long-, medium- and short-term operational changes that Gerdau Ameristeel has made to capture the net savings associated with avoiding the five system peaks.

Examination of AMPCO Panel, Transcript dated March 3, 2009, page 25, lines 5-28, page 26, lines 1-28, page 27, lines 1-28, page 28, lines 1-9

He acknowledged that these investments and changes have real costs, but confirmed that there is a net benefit to chasing the peaks. He estimated that the net benefit is "in the million-dollar range" for Gerdau's New Jersey mill; the million dollar range for the Texas mills. He expects the savings in Ontario would be in the multi-million dollar range.

Examination of AMPCO Panel, Transcript dated March 3, 2009, page 165, lines 5-11

Examination of AMPCO Panel, Transcript dated March 3, 2009, page 29, lines 6-8

He also confirmed that if the Board were to approve the High 5 Proposal, Gerdau Ameristeel "would start doing this in Ontario tomorrow."

Examination of AMPCO Panel, Transcript dated March 3, 2009, page 28, lines 13-14

(ii) The second reason that the High 5 Proposal will be more effective is that it focuses demand reduction efforts on the 5 highest coincident system peaks. These peaks create the standard to which Hydro One must upgrade. Unlike the current rate design, the High 5 Proposal offers no incentive to chase the lesser system peaks that do not stress the transmission system.

(iii) Third, the High 5 Proposal provides an incentive to chase more than one of the highest peaks in a single month. AMPCO recognizes that days of highest coincident system peak demand do not fall neatly one into each of the twelve months of the year: rather they may occur at any time, and more than one may occur in a given month. The High 5 Proposal provides a "constant and ongoing incentive to look at how you are using the transmission system."

Examination of AMPCO Panel, Transcript dated March 3, 2009, page 23, lines 1-8

By providing an incentive to chase the highest coincident system peaks whenever they occur, the High 5 Proposal is much more likely to achieve demand reductions that meaningfully reduce the stress on the transmission system.

4. An Economically Efficient Rate Design

A economically efficient rate design provides some customers with an incentive to take actions that create general benefits for all customers. Economically efficient rate designs, therefore, reward the few, but benefit the whole.

(a) There is no evidence that the current rate design benefits all consumers

For the reasons discussed above, the current rate design provides only a small incentive for some customers to reduce their load and to reduce it only a marginal amount. No evidence has been presented that the current rate design confers substantial, quantifiable benefits on all rate payers.

The current rate design was not necessarily designed to benefit all consumers. It was developed before the market opened and so was never "tested". Rather, it was implemented to regulate competition in generation, in part by preventing customers from avoiding paying their fair share of transmission costs by installing generation behind their meters.

> Examination of the AMPCO Panel, Transcript dated March 3, 2009, page 13, lines 15-14, per Mr. White

(b) AMPCO's proposal will create a net benefit for all Ontario consumers

The High 5 Proposal will produce substantial net HOEP savings for all Hydro One customers. AMPCO's econometric model provides statistically significant evidence that industrial demand reductions could result in a net decrease in commodity costs of over $11 million across all customers.

> AMPCO's undertaking responses, Exhibit J6.3, pages 5, table: HOEP tends to be highest and most elastic during coincident system peaks. The industrial demand reduction of 29 MW during peak hours predicted by the model will therefore drive HOEP down by about $0.47 per MWh, for a total savings of $12,731,225 per year across all customers.

> However the model also predicts that 24 MW of demand will be shifted to the off-peak period of the same day. Because price is less elastic during the off peak hours, this increase in demand will nudge HOEP up only by $0.14 per MWh, for a total increase of $1,423,476 per year across all customers. The demand shift produced by the High 5 Proposal is therefore expected to create countervailing changes in HOEP that result in a net commodity cost savings of $11,307,749 per year across all customers.

To keep Hydro One's Network Pool revenue whole, the transmission cost savings achieved by demand-responsive industrial customers will have to be shifted to other customers. Even when this transmission cost shifting is taken into account, customers will still enjoy substantial net savings as a result of the reductions in HOEP. The econometric model predicts net savings of just over $10 million.

> AMPCO's undertaking responses, Exhibit J6.3, pages 5, table: The model predicts that the total annual transmission cost savings that industry would realize from a 29 MW demand reduction would be $903,208. All other customers will have to pay an additional $903,208 to keep the revenue requirement whole. Subtracting this amount from the commodity cost savings of $11,307,749 results in a net savings of $10,404,541.

The High 5 Proposal is therefore much more than just an opportunity for demand-responsive industrial customers to save on transmission costs. It is an economically efficient rate design that produces net benefits for all Ontario electricity consumers.

5. The Board may only approve rates that are "just and reasonable"

> *Ontario Energy Board Act*, 1998, S.O. 1998, c.15, Sched. B, s. 78(3)

A just and reasonable rate design is one that matches the revenues collected from customers to the revenue requirement of the transmitter. To ensure that Network Charge Rates are fair and reasonable, the Board must take care that the rate design used to calculate Network Charges allows Hydro One to collect only its approved Network Pool revenue requirement.

(a) The use of load forecasts in the current rate design can lead to over-collection of revenues by Hydro One

Under the current rate design, if Hydro One underestimates the load forecast, it will over-collect from customers. Recall that the Network Charge Rate is determined with reference to a load forecast. For a 1% change in the forecast, there will be a correspondence 1% change in the charge rate. For a given Network Pool revenue requirement, the lower the forecast is, the higher the Network Charge Rate will be. Applying an excessive Network Charge Rate to actual metered customer loads results in over-collection.

Unreasonably low load forecasts thereby undermine the Board's efforts to set just and reasonable rates. We submit Hydro One has consistently underestimated the load forecast used in calculating Network Charge Rates for the past 6 years:

Table 1: Comparison of Hydro One load forecast to actual load

Year	Load (MW)		Variation	
	Forecasted	Actual	(MW)	(% of Forecast)
2002	22,068	22,773	(705)	(3.19%)
2003	22,226	22,281	(55)	(0.25%)
2004	22,381	22,934	(553)	(2.47%)
2005	22,169	23,043	(874)	(3.94%)
2006	21,656	22,929	(1,273)	(5.88%)
2007	21,709	22,223	(514)	(2.37%)

See Hydro One's responses to undertaking, Exhibit J5.1, page 2, table 2, for forecasted and actual loads

During the hearing, Hydro One attempted to defend its load forecasting methodologies. Mr. But referred to the following excerpt from the Application:

> The survey results confirm that the weather normalization methodology used by Hydro One Transmission is appropriate and no change is required. In light of the increased volatility on peak in recent years, the energy to peak relationship should be reviewed and updated as part of an on-going process. In preparing the transmission system load forecast for this Application, Hydro One Transmission has reflected this relationship by adjusting the load so that the peak grows faster than the energy over the forecast horizon. In other works, the peak forecast has been shifted up consistent with recent weather trends.
>
> Hydro One application, Exhibit A, Tab 14, Schedule 3, page 13, lines 26-28, page 14, lines 1-4
>
> See also Examination of Panel 4, Transcript dated March 2, 2009, page 25, lines 18-25

The statement is internally contradictory. On the one hand, Hydro One acknowledges that it is changing its forecast methodology to reflect the impact on peak demand caused by recent weather trends. On the other hand, the company continues to defends its reliance on a weather normalization methodology that defines normal weather as the average of the past 31 years.

Mr. But testified that he adjusted Hydro One's 2008 load forecast up by 430 MW to account for recent volatility. Tellingly, the adjustments were based on an analysis of load factor volatility only since 1994, and not over the past 30 years.

> Examination of Panel 4, Transcript dated March 2, 2009, page 27, lines 2-4
>
> Hydro One's responses to undertaking, Exhibit J5.4

The adjustment of the load forecast performed for this application does not appear likely to bring the load forecast in line with actual loads. Had the same 430 MW adjustment been made to the forecasts for 2002 through 2007 (see Table 1 above), all but 2003 would still have been underestimates.

The load forecast, therefore, appears to be a systematically unreliable input for setting Network Service Charges. The current rate design, therefore, is not just or reasonable to the extent that it creates an unacceptable risk of over-collection from customers.

(b) The High 5 Proposal eliminates uncertainty by doing away with unreliable load forecasts

The High 5 Proposal does not depend on load forecasting. Instead it only requires a once-a-year calculation of Network Charges based on data already collected by the IESO and on a Network Pool revenue requirement approved by the Board. It is, therefore, a much more just and reasonable network design.

6. A Predictable Rate Design

A predictable rate design is one that provides revenue and cost certainty to Hydro One and its customers. Certainty permits all stakeholders to make more efficient business decisions.

(a) The current rate design creates unnecessary volatility in customer costs and Hydro One revenues

As discussed above, Network Service Charges are a function of metered customer load data each month. The aggregate load of all customers fluctuates from month-to-month. As a result, the revenue collected by Hydro One fluctuates from month-to-month. This revenue volatility is an unnecessary strain on cash flows and working capital.

The individual load of many customers also fluctuates from month-to-month. As a result, the cost of power for these customers also varies from month-to-month. This cost volatility can be difficult to forecast, can make pricing products difficult, and is an unnecessary strain on cash flows and working capital.

(b) The High 5 Proposal provides predictable revenues for Hydro One and predictable costs for its customers

The High 5 Proposal would fulfill Hydro One's Network Pool revenue requirement with a constant and predictable monthly cash flow. This predictability of cash flow would facilitate

Hydro One's financial planning, could ultimately decrease its working capital requirements, and may make it more attractive to prospective lenders.

For customers, knowing transmission costs for the coming year also facilitates financial planning. The High 5 Proposal could help to mitigate the risk that customers will price their energy-dependent products incorrectly and either lose market share from over-estimating cost or lose profit from under-estimating cost.

7. Criticisms of the High 5 Proposal

(a) The choice of 5 coincident system peaks is not arbitrary

AMPCO chose to use 5 peak days for three reasons. First, the choice of 5 peak days is consistent with the approach in other jurisdictions, particularly PJM. Second, an analysis of load data from 2003 to 2008 showed that selecting 5 peak days would catch all peaks over 23,309 MW, which seemed like a reasonable cut-off given that the network experienced an absolute peak of 27,005 MW in the same period. Finally, based on feedback from industry, AMPCO concluded that the net benefit of attempting to identify 5 peaks and curtail production to avoid them would still be sufficient to motivate customers to hunt the peaks.

AMPCO's interrogatory responses, Exhibit I, Tab 14, Schedule 1, response (a)

(b) The High 5 Proposal is not unfair to LDCs

The High 5 Proposal creates a clear market signal that encourages peak shifting and peak shaving by all transmission customers. The proposal creates an appropriate policy context for giving LDCs control of demand response technology that is already in place.

Cross examination by the Electricity Distributors Association seemed to be intended to suggest that LDCs are unable to shift their demand and would thus be unfairly disadvantaged by the High 5 Proposal. In particular, counsel for the Electricity Distributors Association appeared eager to establish that the IESO, and not the LDCs, make the decision to curtail demand under the Peaksaver program.

Examination of the AMPCO Panel, Transcript dated March 3, 2009, page 131, lines 16-28, page 132, lines 1-6

The problem, however, is not that LDCs do not have control over demand; it is that the Peaksaver program does not yet allow them to exercise that control. AMPCO witnesses pointed out that the technology used for the Peaksaver program "is certainly able to support LDC control", but that the rules of the Peaksaver program uploads the demand curtailment decision making to the IESO, much to the frustration of LDCs. Under the current rate design, LDCs "may not have much financial motive to [chase peaks], but it doesn't mean they can't, or don't, or shouldn't or won't."

Examination of the AMPCO Panel, Transcript dated March 3, 2009, page 132, lines 7-25, page 133, lines 26-28

The High 5 Proposal will create a much stronger financial motive to chase peaks. That stronger financial motive may highlight flaws or inconsistencies in programs like Peaksaver; but, seeing those flaws in a clearer light should not cast a shadow on the High 5 Proposal. Rather, the clear market signal sent by the High 5 Proposal will enable policymakers to create programs that put decision-making authority into the hands of the market participants who are best able to reduce peak demand.

Even if LDCs struggle to chase peaks under the High 5 Proposal, their customers would still experience an overwhelming benefit in the form of net HOEP savings. Assume that the $903,208 of transmission cost savings by industry predicted by Dr. Sen's model was shifted entirely to LDCs. The LDCs pro rate share of the $11,307,749 of net commodity cost savings was estimated by AMPCO to be $9,827,771. Subtracting from this amount the entire $903,208 would still produce a net benefit for LDCs of $8,924,563.

See AMPCO's responses to undertakings, Exhibit J6.7, page 1 for pro rata distribution of savings

(c) There is no true free rider risk under the High 5 Proposal

"Free rider" is a term used pejoratively to describe customers who could reduce their network service charge to zero and thus enjoy use of the transmission network without paying for it. It is impossible to become a free rider under the High 5 Proposal for three reasons. There is a significant cost to chasing peaks.

First, to become a free rider, the customer would have to be able to curtail 100% of its demand during coincident system peaks. Few if any industries can shut down consumption completely. For example, Mr. MacDonald testified that Gerdau Ameristeel Corporation, a very demand-responsive steel manufacturer, could at best reduce consumption at one of its mills from 70 MW to 20 MW.

Examination of the AMPCO Panel, Transcript of March 3, 2009, page 164, lines 15-18

Second, a company that was able to curtail 100% of its load would have to do so successfully on each of the 5 highest coincident system peaks. These 5 peaks are moving targets that may fall at any time during the year. Hitting all 5 of them will be a difficult task, even for the most sophisticated customers.

Third, in the very unlikely event that a particular customer was able to curtail 100% of its load at all 5 peaks, it would still not be a complete free rider. The network service charge makes up only about 6% of the average industrial customer's invoice. Line Connection Charges, Transformation Connection Charges, Wholesale Meter Charges, commodity costs, and other fees would still apply. Avoiding up to 6% of the average bill is a strong enough incentive to curtail, but does not constitute an unreasonable windfall for demand-responsive customers.

Examination of the AMPCO Panel, Transcript of March 3, 2009, page 165, lines 1-11

Under the High 5 Proposal, the true free riders are customers who choose not to curtail their loads during periods of system peak demand. For doing nothing, these customers enjoy the benefit of the reduction in HOEP that results from the curtailment decisions of some customers. AMPCO members understand this dynamic and even those that are not demand-responsive support the proposal.

Examination of the AMPCO Panel, Transcript of March 3, 2009, page 24, lines 6-9 and 14-16

(d) The existence of zonal peaks does not undermine the improvements associated with the High 5 Proposal

AMPCO recognizes that there may be zonal peaks that do not coincide with the coincident system peak and that such zonal peaks may also inform the need for transmission system upgrades. The current rate design, however, makes no allowances for such zonal peaks. To the extent that some coincident system peaks will occur at the same time as these zonal peaks, the High 5 Proposal is a marked improvement over the current rate design.

Furthermore, requiring that the High 5 Proposal address zonal issues would be inconsistent with the holistic definition of the Network Pool. As Hydro One pointed out in its application, the Network Pool that is funded by Network Charges is intended to include transmission assets that are "used for the benefit of all customers, or have been approved by the OEB as being for the benefit of all customers in the province."

Hydro One application, Exhibit G1, Tab 2, Schedule 1, page 3, lines 14-16

8. The High 5 Proposal should not be delayed by extensive stakeholder consultations

AMPCO has invested substantial amounts of time in bringing to the attention of stakeholders in the Ontario electricity market the need for a change in rate design. AMPCO has "taken every opportunity to raise this issue with the transmitter and every other stakeholder, and this issue has been present and, frankly, front and centre of AMPCO's representations dealing with transmission issues for a long time."

Examination of the AMPCO Panel, Transcript of March 3, 2009, page 153, lines 8-12

As part of this hearing, intervenors representing virtually every customer stakeholder group have had an opportunity to understand, question and challenge the proposal in this proceeding. It would, therefore, be repetitive and wasteful to commence a new round of stakeholder consultations on a proposal that is so well understood by those who will be affected by it.

Furthermore, Hydro One has demonstrated an unwillingness to facilitate timely and meaningful consultations on this issue. When asked by counsel for Hydro One why AMPCO had been engaging in one-on-one discussions with stakeholders rather than convening a formal consultation with Hydro One's assistance, AMPCO's witness Mr. Clark offered the following:

> "The question is absolutely fair, and the forum that we did try to use was your client's stakeholder meetings. We did ask that this issue be brought up. They did take note of it. We did have support from Pollution Probe on the issue. And your client did not want to pursue stakeholdering of any suggestions by AMPCO on this.
>
> I don't know how much more clearly I can make that. But the reluctance we received from your client was such that we could not use that avenue."
>
> Examination of the AMPCO Panel, Transcript of March 3, 2009, page 152, lines 12-20

Extensive stakeholdering will not necessarily produce an effective, efficient, fair and predictable rate design. For example, the 85% ratchet feature of the current rate design is a dated and arbitrary vestige of stakeholdering. During the hearing, Hydro One acknowledged that figure of 85% was set 10 years ago in 1999, was at that time a "compromise position" and not "any more scientific than that," and is now just a "carry over from previous proceedings."

> Examination of Panel 4, Transcript dated March 2, 2009, page 46, line 2; page 45, lines 23-26 and line 14

AMPCO recognizes that the High 5 Proposal is nevertheless a substantial change. Customers are entitled to notice and time to adjust to the change. Hydro One must make procedural and administrative changes to implement the proposal. Hydro One will have to work with the IESO to implement new billing and settlement procedures. Hydro One may want to help the OPA incorporate the effects of the proposal into OPA planning models. AMPCO is, therefore, prepared, in the alternative, to agree that the High 5 Proposal could be deferred for one year to ensure that it is implemented smoothly.

PART II. AMPCO's Submissions Concerning Hydro One's Application

1. Introduction

As an association representing Ontario's large industries and users of electricity, AMPCO participates in rate applications with other intervenors representing customer interests. Collectively, the industrial sector pays about 30% of the total transmission charges in the province. Hence, this part of AMPCO's argument contains our customer focused perspective on the Hydro One application.

For most rate applications, general comments are restricted to a statement of the intervenor's interest and an overview of the quality or attributes of the application. AMPCO has concerns, however, with this application and the applicant's approach that do not fit easily within the confines of the functional issues list.

The matter of greatest concern has been Hydro One's lack of response to the dramatic changes in the economic environment that have occurred since it filed this application.

The projects and programs contained in the evidence filed by Hydro One in this application had been largely finalized in early May, 2008, when the TSX was above 14,000 and climbing.

Reference: Ex K3 (Sunnybrook Process)

Four days after the initial filing, the IPSP hearings were deferred. By November, 2008, it was clear to all parties that Ontario was heading into a global recession. Against this, Hydro One's (unchanged) load forecast assumed GDP growth of 2.1% in 2009 and 2.8% in 2010.

Reference: Ex A/Tab14/Sch3/ page 6, lines 17-19

In one of its interrogatories in December, Board staff specifically asked Hydro One whether and when it was planning to update its application to reflect any material impacts from the changing economic situation.

Hydro One's reply in part, was that *"Hydro One is aware of the deteriorating economic climate and the need to support infrastructure improvements. These circumstances may require Hydro One to file a more extensive update in the future*".

Reference: Ex I/Tab 1/Sch 10/Page 1, lines 39-43

By the time Hydro One filed its update in February, the economic situation in Ontario had grown much worse yet, Hydro One's update included only the addition of 2008 year end actual results. There were no adjustments to its plans which reflected the deferral of the IPSP, the contraction of the economy or the fact that its load forecast is now dated.

Hydro One's response to this issue has been that it chose not to update because to do so would have required higher rates to recover its revenue in the face of lower demand. Hydro One claims that it is not changing its application so as to provide customers some protection from rate shock.

Reference: Transcript Vol. 7, page 23, line 26 to page 24, line 8

It is true that, all things being equal, recovery of Hydro One's static revenue requirement in the face of a lower load forecast would require higher rates.

The position taken by Hydro One, however, misses the point that AMPCO and other intervenors have been trying to make; Hydro One's business plan needs to reflect the changes in the economy that are forcing businesses, governments and individuals to scale back their own plans and reduce their costs.

With respect, when counsel for Hydro One argued in chief that intervenors would seek to suppress rates by denying recovery of prudently incurred costs, he was not correct.

Reference: Transcript Vol. 7, pages 3 – 4.

AMPCO submits that prudence on Hydro One's part would require the company to update all the plans that drive its revenue requirement.

The contention of Hydro One that all its programs and projects must still proceed in conformance within timelines and for reasons established more than a year ago is not supported by the evidence.

Private companies facing major investment requirements at times when access to capital is constrained and prices cannot be increased are forced to make hard choices, cutting back on all but the non-essentials. This is the situation with most industry in Ontario today. As a monopoly, Hydro One is not naturally constrained in this way. Customers have to look to the regulator to apply these constraints.

AMPCO submits that Hydro One needs to take the same sort of actions its customers are being forced to take currently, which is to curtail non-essential spending and investment until the economy improves.

Moreover, Hydro One has informed the Board that it intends to submit another transmission application within the coming twelve months.

Reference: Transcript Vol 1, Page 7, lines 6-9.

2. Specific Programs and Issues

(a) Sustainment Capital and OM&A

Hydro One proposes to increase Sustainment OM&A spending from $187.5M in 2008 to $240.1M in 2010, an increase of over 28%. The 2008 program cost appears to have been close to the average for the 2005-2008 period.

Reference: Ex C1/Tab2/Schedule2/Table 1

Hydro One is proposing to increase Sustaining Capital spending from $280.4M in 2008 to $321.6M in 2010, an increase of approximately 15%. Compared with 2007 ($210.0M), the three year increase would be over 53%.

Hydro One has provided evidence to illustrate how the system is performing and the condition of its assets. The evidence includes reliability performance, benchmark studies, asset condition and asset age data.

Reliability and performance indices are inherently "rear view mirror" indicators. They have limitations, but are useful in spotting whether trends are developing that need to be turned around.

For customers, the critical deliverable for a transmission company is the overall reliability of the system. Hydro One has furnished ample evidence that its performance is on a par with other utilities in North America and, except for its 115kV system, is generally in the first or second quartile of its peer groups.

Reference: Ex A/Tab15/Schedule 1

The relatively lower placement of Hydro One's reliability for the 115kV system is explained by the radial nature of this system in Ontario.

Reference: Ibid, page 13

There are no apparent trends in the evidence provided by Hydro One that suggest any deterioration in either system or delivery point reliability over the past decade.

Hydro One also provided a consultant's report that benchmarked several indicators of transmission system cost and operating performance for the years 2004-2006. The utility of this report is limited due to the relatively small peer group that could be sampled. The benchmarking exercise, however, did not reveal any significant variances with Hydro One's peer group in terms of unit spending, component loading or reliability.

Reference: Ex A/Tab 15/Schedule 2/Attachment 1

Hydro One's customer satisfaction measures also indicate general improvement, with no emergent issues.

Reference: Ex A/Tab 15/Schedule 1, page 6, Table 2

In sum, performance and benchmark cost indicators provide no suggestion that Hydro One is a company that needs to increase significantly its sustainment and operations work programs.

Hydro One also provided other evidence that can be useful in identifying emergent or potentially emergent issues. The Asset Condition Assessment (ACA) report provides a snapshot of the health of the different component populations. The ACA study provides an overview of the general health of specific types of assets, which should then be useful to determine whether existing programs are adequate or need to be increased.

Reference: Exhibit D1/Tab2/Schedule 1

Hydro One has regularly updated the ACA report since 2003. As with previous years, the ACA report did not reveal any emergent problems or trends, particularly in the most critical Priority 1 assets.

Finally, asset age can be useful for predicting future trends in maintenance and replacement requirements. Hydro One provided some graphs to illustrate that it has a large number of assets in middle age or near their statistical end of life.

Reference: Ex C1/Tab2/Schedule 2 and Ex D1/Tab3/Schedule 2

Asset age itself, however, should not be used as a direct decision criterion for setting work programs year to year. Hydro One's panel 2 stated this explicitly.

Reference: Transcript, Vol. 2, page 174, lines 4-7.

In AMPCO's view, none of the evidence in the application suggests that a significant increase in sustainment activity is an urgent priority. It is, therefore, reasonable to suggest that Hydro One's sustainment activities can be held to current levels without incurring undue risk in the short to medium term.

AMPCO recommends that the Board constrain Hydro One's sustainment budgets (both OM&A and Capital) to the average of the historical and bridge years.

(b) Development Capital

Hydro One proposes to accelerate it's capital spending over the test period. Capital spending has more than doubled between 2005 and 2008 and is to increase a further 50% by 2010. The majority of the increase is clearly in development capital, but all categories show rapid increases.

Reference: Ex D1/Tab3/Schedule1, Table 1

Hydro One has provided reference to government directives, such as for the Bruce-Milton line and also to specific OPA requests for its projects (numbered D1-D14). These 14 projects have total budgets of $396.5M and $509.6M in 2009 and 2010 versus $130.4M in 2008, representing the bulk of the requested increase in capital.

Reference: Ex D1/Tab 3/Schedule 3, Table 2 (p33)

AMPCO accepts the justification for projects D1-D14 as put forward by Hydro One. We would suggest that, in future applications, Hydro One provide the supporting evidence for all projects in compliance with the Board's filing guidelines, including evidence prepared by other parties.

Most of the remaining projects, other than generation connection, appear to be driven primarily by load growth, with a few exceptions related to a combination of load growth and concerns for ageing equipment. Some of the load growth projects are well understood and accepted, for example, Holland TS. Several development capital projects, however, appear to be justified on the basis of load growth projections that may not materialize as originally expected**.**

In an interrogatory, VECC asked for a regional breakdown of Hydro One's load forecast for 2008 to 2010. This shows clearly that Hydro One is projecting demand reductions in 2009 and 2010 in all regions. This forecast was prepared with Hydro One's evidence for this application, which was before the economic downturn.

Reference: Ex. I/Tab 6/Schedule 17, page 2.

AMPCO cross-examined panel one concerning two specific projects where its members and other industries have curtailed or closed operations, or were planning to do so. These were projects in Essex County (D22) and the Welland, St. Catharines area (D28&D29). The Essex

project is apparently awaiting confirmation of need from the OPA and the other two appear headed for deferral.

Reference: Transcript, Volume 1, pages 133-141

AMPCO submits that if a project is not going to proceed, it should not be budgeted.

AMPCO recommends that, unless Hydro One can provide supporting evidence to the contrary, projects D22, D28 and D29 should be removed from the 2009-2010 budgets.

AMPCO submits that the Board should not be concerned that making some downward adjustments to Hydro One's capital programs will significantly increase risk as was brought out through the cross-examination done by CCC. Hydro One has already demonstrated that it can significantly under-accomplish on its plans and not jeopardize service.

Reference: Transcript Vol 2, page 25, line24 to page 27, line 8; Ex D1/Tab3/Schedule 4, page 4, Table 2

Moreover, as noted by Hydro One's counsel, the company plans to bring another application forward within the next twelve months.

3. Request for Variance Account for IPSP and Other Pre-Engineering Planning Costs

Hydro One has requested the Board to approve the establishment of a special variance account to cover the costs of planning a number (18) of capital projects that relate to the IPSP and the proposed Darlington B generating station. The cost in the test period is estimated at $19.2M of an overall estimate of $47.9M.

Exhibit:Ex F1/Tab1/Sch 2/page 1, line 21

Hydro One has provided a list of the proposed projects.

Reference: Ex C1/Tab2/Schedule 3/Page 7, Table 1

Hydro One has been somewhat vague as to what would happen with respect to the costs it would incur for projects that do not ultimately become used and useful. Its specific wording is, "Hydro

One Transmission proposes to collect these costs in a variance account for disposition and recovery at a future date in accordance with Board direction."

Reference: Ex F1/Tab1/Schedule 1, page 2

While this may be vague, it seems clear that, at some point, Hydro One would wish to recover these costs from customers, either by having them capitalized if the projects go ahead and are placed in Hydro One's asset base, or expensed and charged to Hydro One's customers over some period. Whatever Hydro One's view on how these costs should ultimately be recovered, the fact that the company is seeking prior approval suggests that it is not proposing to place its shareholder at risk for this work.

During a recent OPA fees case which was before the Board (EB-2008-0312), AMPCO specifically asked the OPA if it has requested Hydro One to do any of the IPSP work detailed by Hydro One. The OPA's response was that it has not requested this work to be done, that it has no development agreement with Hydro One with respect to these projects and that it is awaiting guidance on some of these projects with respect to the transmitter selection process.

Reference: Exhibit J 2.5

The Hydro One panel also acknowledged that some of this work could be awarded to other transmitters. Of the 18 projects listed in C1/2/3/Table 1, four are enabler lines, which are the subject of the Board's initiative in EB-2008-0003 and one is the Manitoba Ontario line. At a minimum, these five projects may be contestable.

Reference: Transcript, Vol. 2, page 128

Four projects on Hydro One's list are identified as contingency projects in the event the OPA should be unsuccessful in obtaining planned gas generation when it is needed.

With the exception of the Darlington GS B connection, the balance of the projects were identified in the IPSP before the EB-2007-0707 hearings were suspended.

AMPCO submits that the Board should deny the request by Hydro One for this variance account, for these reasons:

(i) For those projects, such as the enabler lines and the Manitoba-Ontario line that can fairly be defined as new transmission, Hydro One may have to compete for this work with other transmitters. For the Board to provide Hydro One some reassurance that it would be able to recover the planning and preliminary costs for these projects would provide Hydro One with an unfair competitive advantage over its competition.

(ii) For those four projects defined as contingency plans to backstop OPA plans for gas generation procurement, Hydro One should seek funding from the OPA as part of the procurement cost. This would place the decision to fund or not fund the contingency plans with the agency charged with securing this supply.

(iii) Hydro One should be instructed to seek planning costs up front from OPG for the engineering of the Darlington B connection. While it is a potentially large project, there does not seem to be any reason in principle why, if the planning is necessary at this time, the customer should not be paying for the work. Any large load customer planning a facility would be asked for a contribution or would be expected to contract for the work at its cost. Hydro One has not provided any evidence that the need remains for this project on its original timeline.

(iv) The balance of the projects are defined by Hydro One as being related to the IPSP. It is not clear that all of these projects will be required. The OPA has not provided Hydro One with documentation to support Hydro One's estimates of timing or likelihood. Underlying Hydro One's proposal for planning these projects is an assertion of urgency. As with other issues in this application, this proposal was prepared well before the economic recession commenced. The timing of the various IPSP projects has been kept flexible by the OPA with the understanding that events could force adjustments. For Hydro One to continue to claim urgency for projects that may now be deferred for years should require at least some third party corroboration.

Reference: Transcript, Vol. 2, page 127, line 28 to page 128, line 2

By allowing significant funds to be sunk in these projects without a business case, they effectively by-pass the approval process.

4. Load Forecast

In Part I, Section 5(a), AMPCO presented its concerns with Hydro One's load forecast and weather normalization methodologies, in the context of how they affect rate risk. In this section, comments are limited to addressing the issue of whether Hydro One has responded appropriately to all relevant Board directions from previous proceedings.

In the EB-2006-0501 hearing process, AMPCO presented evidence that Hydro One's load forecast and weather normalization methodologies were flawed in a way that, since 1999, had been consistently producing forecasts that were lower than the demand that actually occurred. AMPCO and other intervenors made recommendations to the Board for upward adjustments to the Hydro One load forecast as a result, the Board has ordered Hydro One to take three specific actions:

Reference: EB-2006-0501 Decision with Reasons, Aug 16, 2007, pages 85-92

(i) Increase the load forecast for monthly average Ontario demand by 350MW to correct double counting of CDM accomplishments.

Reference: Ibid, page 92

(ii) Conduct a study that would explain the differences between the Hydro One and the IESO forecasts.

Reference: Ibid, page 88

(iii) Conduct a study comparing Hydro One's weather normalization practices with those of other utilities including a recommendation, with supporting rationale, for either retaining the current methodology or making modifications.

Reference: Ibid, page 88

Hydro One conducted its review of the differences between its forecast and the IESO's as directed by the Board. Differences in methodology and accounting for CDM and embedded generation were identified, which appear to account for most of the spread between the two

forecasts. The report did not actually look at the relative accuracy of the two forecasts. In cross examination, AMPCO requested an additional column be added to comparison tables in the report, so that readers could more readily understand the relative merits of each methodology. This table was provided in an undertaking and illustrates that the IESO forecast tends to be higher than actual demand as often as it is lower, whereas the Hydro One forecast was consistently lower than actual demand.

Reference: Ex. J 5.1, page 2, table 2

As with the IESO study, Hydro One performed a comparison of its weather normalization methodology with other utilities in North America. In its evidence, Hydro One stated that the ITRON study it commissioned verified that the majority of utilities use 30 or more years of weather data for normalization.

Reference: Ex A/tab 14/Schedule 3/Attachment A, Table 1.

This is true, but an incomplete description of the study's results. Weather normalization is performed by utilities for a variety of reasons, for normalizing energy as well as demand. Generally, fluctuating weather has a greater effect on peak demand than it does on total energy consumed. So, companies that need to understand underlying peak demand should have a greater interest in the accuracy of their weather normalization methodology.

AMPCO examined this issue in cross examination, referring to the ITRON report. This report shows that, when asked how many years they use to normalize peak demand, some 64% of respondents are using periods less that Hydro One's 30 yrs.

Reference: Transcript Volume 5, page 27, line 21 to page 28, line 8

AMPCO is not requesting the Board to direct Hydro One to adjust its load forecast upwards for 2009 and 2010, unless it were also willing to adjust the rest of the application to reflect the changes in outlook.

AMPCO does submit that, if the accuracy of load forecast is to remain a key risk area for Hydro One and its customers, the Board should direct Hydro One to hire an independent expert to

develop a "best fit" weather normalization methodology for assessing peak demand in Ontario. Best fit would be defined as the normalization method that, if used over time, would have produced the lowest long term average weather correction.

AMPCO recommends that the Board consider mechanisms to reduce or eliminate the risk to Hydro One and customers from forecast error. AMPCO's submission on changing the network charge determinant can eliminate over 50% of this risk, as the network pool drives most of the revenue requirement. However, the forecast risk will still affect a large portion of customer's cost.

Notwithstanding AMPCO's criticism of Hydro One's methodologies, it appears certain that shifting demand patterns due to increased CDM initiatives and economic uncertainty are combining to make forecasting very difficult. A mechanism that recognizes and addresses this uncertainty for the benefit of both the company and its customers should be considered.

5. Export Transmission Service (ETS) Tariff

In EB-2006-0501, Hydro One began to address the issue of the appropriate level for the Export Transmission Service (ETS) tariff. The current $1/MWhr tariff was set in RP-1999-0044 and is well understood to be a place holder until either a more carefully calculated rate can be determined, or until reciprocal arrangements could be made with neighboring jurisdictions to create a system of symmetrical export tariffs.

As part of its evidence in EB-2006-0501, and on the direction of the Board, Hydro One submitted a report by Rudden Associates titled "A Jurisdictional Survey of Export and Wheel through Service Rates" This study is complex, because different jurisdictions impose different fees and have differing approaches to transmission charges in general. Rudden, however, calculated that neighboring jurisdictions were charging between approximately three times to ten times the Ontario rate for similar export service.

Reference: OEB File EB-2006-0501, Ex H1/Tab 5/Schedule 2; Ibid, page 5

In the current hearing, AMPCO requested Hydro One to perform a simple calculation that would translate the current network demand charge in an energy-based fee, similar to the export transmission tariff. Hydro One's response was that the 2010 cost would be $5.61/MWhr if the network pool were recovered on an energy rather than demand basis. This may be a crude approximation of what an appropriate export tariff should be, but it is comfortably in the range of the charges Rudden found in other jurisdictions and certainly well above the current charge.

Reference: Ex I/Tab 10/Schedule 4

In the EB-2006-0501 settlement process, the IESO asked for more time to negotiate the export tariff with other jurisdictions. Intervenors accepted this request, but with a firm commitment and timeline. As a part of the settlement, Hydro One agreed to bring back a report from the IESO by June 1, 2009, for 2010 rate setting.

Hydro One has not honoured its commitment in this application. Under cross-examination on behalf of AMPCO, Hydro One confirmed that it does not intend to seek adjustment of the export transmission tariff in its 2010 rates.

Reference: Transcript, Volume 5, page13, line 19 to page 16, line 20

In the same cross-examination, it was implied that there would be "negotiations with the various parties" after the IESO report was reviewed or vetted. AMPCO submits that this is not the process agreed to in the EB-2006-0501 settlement.

Reference: Ibid, page 15, line 20-27

Hydro One forecasts that, at the current rate, it will receive approximately $12M in revenue in each of 2009 and 2010. If the rate were set at, between $3/MWhr and $6/MWhr, the reduction in cross subsidization by existing customers would be in the range of $24M to $60M.

Reference: Ex A/Tab3/Schedule 1/Page4, line12

AMPCO submits that Hydro One should be ordered by the Board to bring the IESO report to the Board once it has received it and to make recommendations to the Board for an appropriate ETS tariff to be applied in 2010.

This is the commitment Hydro One made to the Board and to the intervenors in order to achieve settlement in EB-2006-0501. To allow Hydro One to defer this issue for another year or more would undermine the integrity of the settlement process and continue the current cross-subsidy.

PART III. AMPCO's request of the Board

AMPCO requests the following:

1. that the Board order Hydro One to implement the High 5 Proposal in the 2009 rate year or in the alternative in the 2010 rate year, with rates calculated pursuant to the High 5 Proposal to first take effect in 2010, or in the alternative, in 2011;

2. that the Board order Hydro One to take all necessary steps to implement the High 5 Proposal in accordance with the timeline above, including but not limited to providing customers with timely notice of the change, implementing billing and settlement precedents with the IESO, and notifying OPA of the change forthwith; and

3. that the Board deny increases in Hydro One's sustainment OM&A costs beyond the average of the historical and bridge years; and

4. that the Board deny increases in Hydro One's sustainment capital costs beyond the average of the historical and bridge years; and

5. that the Board deny Hydro One's request for a variance account to hold pre-engineering costs for a variety of IPSP, contingency and other projects should be denied; and

6. that the Board order Hydro One to establish a load forecast risk mitigation mechanism to reduce risk to both customers and Hydro One from rate setting based on uncertain forecasts, if Hydro One needs to rely on load forecasting for rate setting in the future; and

7. that the Board order Hydro One to hire an external consultant to develop a best fit weather normalization process if Hydro One needs to rely on load forecasting for rate setting in the future; and

8. that the Board enforce the terms of the settlement agreement from EB-2006-0501 and order Hydro One to bring a recommendation to the Board in June for adjusting the Export Transmission Tariff; and

9. that the Board deny Hydro One's request for approval of projects D22,D28 and D29 contained in Hydro One's capital budgets for 2009-2010.

PART IV. COSTS

AMPCO respectfully requests that it be awarded 100% of its reasonably incurred costs of participating in these proceedings.

ALL OF WHICH IS RESPECTFULLY submitted this 20th March, 2009.

_____ORIGINAL SIGNED ____
David Crocker

_____ORIGINAL SIGNED ____
Andrew Lord
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