Building Owners and Managers Association of the Greater Toronto Area (“BOMA”) & The London Property Management Association (“LPMA”) Interrogatory # 1

At page 2 of the evidence, the 85% non-coincident peak is described as a "ratchet" that obscures efficient price signals to customers. If this ratchet were removed and the network charge determinant based only on the customer's monthly coincident peak, would this, in the view of AMPCO, provide more clear and efficient price signals to customers? Please explain.

Response

The removal of the ratchet would represent a significant improvement. The effect of the ratchet in terms of setting the price for on-peak transmission network service not only eliminates any incentive beyond the 85 percent level for a customer to reduce on-peak demand but provides a perverse incentive to increase demand up to the 85 percent level. This is because the 85 percent ratchet effectively creates a fixed charge for on-peak network service. If a customer were to reduce on-peak demand beyond the 85 percent level, its network service expenditures would actually increase on a unit cost basis. From a customer’s perspective, therefore, a cost minimization strategy would be optimized by managing on-peak demand as far as possible to remain constant at the 85 percent level, a threshold for which there exists no empirical justification.

Building Owners and Managers Association of the Greater Toronto Area ("BOMA") &
The London Property Management Association ("LPMA" Interrogatory # 2

a) Please clarify the meaning of *"five highest hours of the five highest days in a year"*. Does this mean the five highest hours for each of the five highest days, resulting in a total of 25 hours per year? Or does this mean the highest hour in each of the five highest days?

b) How would the AMPCO proposal deal with a situation where two or more of the highest hours in the five highest days in a year occur in the same day?

c) How has a "highest day" been defined in the AMPCO proposal?

d) Please explain why five highest hours of the five highest days was chosen rather than a lower number or a higher number.

Response

a) AMPCO's proposed definition is consistent with that described in the proposed amendment of regulation 429/04: http://www.ebr.gov.on.ca/ERS-WEB-External/displaynoticecontent.do?noticeId=MTEwNzI0&statusId=MTY2MTgw.

   "The peak hours are the five hours, occurring on different days, in which the greatest number of Megawatts (MW) of electricity were withdrawn by all market participants in Ontario from the IESO-controlled grid."

b) Please see our response to (a) above.

c) Please see our response to (a) above.

d) Please see our response to Board Staff IR #3.

<u>Building Owners and Managers Association of the Greater Toronto Area ("BOMA") & The London Property Management Association ("LPMA") Interrogatory # 3</u>

a) Does AMPCO believe that network costs should be allocated to customers purely on the basis of peak demand contribution?

b) If a customer has no demand at the time of peak demand, should that customer pay for any of the network costs?

c) If possible, would AMPCO agree that network costs should be broken down into costs associated with meeting peak demand and costs associated with base demand and those costs allocated to customers using different methodologies? If not, why not?

d) If the Board were to determine that network costs should be divided in to base costs and addition costs related to peak demand and allocated using different methodologies, please comment on the following:

> i) Would it be appropriate to allocate peak demand costs based on the proposed AMPCO methodology?
> ii) What other methodology may be appropriate for allocating the peak demand costs to customers?
> iii) Would it be appropriate to allocate the base costs based on non-coincident peak demand?
> iv) What other methodology may be appropriate for allocating he base demand costs to customers?

<u>Response</u>

a) Yes.

b) No. We note, however, that the proposition that an industrial customer could operate so as to reduce its demand to zero is a practical impossibility. Even during the blackout of August 2003, aggregate industrial demand was positive.

c) No. As we have set out in submissions in EB-2006-0501, EB-2008-0272 and EB-2010-0002, there is no basis in economic theory or rate-making principle for arbitrarily segmenting Hydro One's costs and expenditures related to the network pool on a basis which differentiates rates customers or classes of customers in terms of how much of those costs can reasonably be attributed to demand at times other than the system peak.

d) Consistent with our answer in (c) above, we find no principled basis to advise the Board, consistent with the Board's statutory objectives and authority, to allocate network costs in a way other than that which we have proposed, i.e., on a critical peak demand-basis.

The outcome of any scheme to allocate costs to customer demand occurring off-peak would be to perpetuate existing cross-subsidies from off-peak consumption to on-peak consumption, to generate on-going deadweight losses, to undermine the efficiency of the electricity sector, to obstruct customers seeking opportunities for more efficient demand management and to impede the realization of economic benefits to all customers.

Building Owners and Managers Association of the Greater Toronto Area ("BOMA") & The London Property Management Association ("LPMA" Interrogatory # 4

a) The implementation of the formula shown in Equation 1 on page 5 would seem to imply that a revenue requirement for a July through June period would be required. Does AMPCO believe that Hydro One should change its rate and/or fiscal years to begin on July 1 rather than January 1? How does AMPCO believe this issue should be addressed?

b) If the billing determinants were to be fixed based on historical data rather than forecasted in determining the recovery of the revenue requirement, does AMPCO believe that this reduction in forecast risk for Hydro One Transmission be reflected in a lower return on equity? Please explain.

c) Please explain why the risk and cost associated with a January through December period for determining the billing determinants would be higher than the July through June period. For example, if January rates are based on peak demand in the previous January through December period why is this riskier than July 1 rates based on peak demand in the previous July through June period if the peak demands are expected to occur in July and/or August?

Response

a) We see no need for Hydro One to make adjustments in its accounting system or to change its fiscal year-end. The Board will approve an annual revenue requirement, and Hydro One will apportion that among the months of the year as it sees fit, subject to the Board's approval.

b) While AMPCO has no specific expertise in the area of cost of capital guidelines for rate-regulated entities, one would expect that to the extent that risks are materially reduced, it might be appropriate to adjust the risk premium component of the rate of return on equity approved by the Board.

c) In a normal weather year, Ontario is likely to experience critical peak demands during the summer months of July and August. Knowing this, a customer's demand response strategy would be to anticipate what those peaks might be and then curtail its demand during peak periods where the peak approached the threshold for a critical peak. Having the summer period at the beginning of an allocation period reduces uncertainty and risk by allowing a customer to know the summer peaks during the first two months of the period, instead of waiting until the end of the eighth month to find out.

Building Owners and Managers Association of the Greater Toronto Area (“BOMA”) & The London Property Management Association (“LPMA” Interrogatory # 5

Please provide an example to support the statement on page 6 that the efficiencies will be enjoyed by all customers, through lower prices and reduced costs. In particular, please show the reduced costs to a residential customer assuming no change in their coincident peak demand.

Response

We expected Hydro One to provide this information in response to the Board's Directive and with time constraints imposed by the late filing of the Power Advisory report and because of finite resources we were unable to undertake any detailed analysis and we are not in a position to do so. The statement that efficiencies through lower prices and reduced costs is based on the fact that wholesale prices are paid by all customers, so reductions will flow through to all customers, and costs (e.g., of losses) are recovered from all customers so reduced costs will flow through to all customers.

**Building Owners and Managers Association of the Greater Toronto Area ("BOMA") &
The London Property Management Association ("LPMA" Interrogatory # 6**

The evidence at page 6 states that *"A proper evaluation of the likely efficiency impacts of any change, include the change we propose to the design of the network charge determinant, requires a review of the costs and potential benefits that would result from such a change."* Does AMPCO also believe that a proper evaluation also requires a determination of the likely impacts on different classes of customers? If not, why not?

Response

Economic cost-benefit analysis aims to quantify changes in total surplus or economic welfare. In this kind of analysis, no preference is accorded to consumer surplus or producer surplus or to the distribution of surplus among consumers or producers. A distributional analysis is not necessary to support a finding of efficiency gains.

We do, however, accept that the impacts between producers and consumers and among producers and consumers are of interest to producers and consumers themselves. Economists, generally speaking, are not inconsiderate of distributional concerns, but the question of how these considerations should affect decisions or how impacts among individual entities or classes should be weighted is, from an empirical perspective at least, complicated and often inconclusive.

Building Owners and Managers Association of the Greater Toronto Area ("BOMA") & The London Property Management Association ("LPMA" Interrogatory # 7

At pages 6 and 7 AMPCO states that the Power Advisory LLC report is not a comprehensive analysis of the impacts of the rate design proposal and that AMPCO does not have the capabilities related to resources and data to undertake such a comprehensive study that would assist the Board and other parties in determining whether such a change to the charge determinant is appropriate.

a) Does AMPCO agree that its charge determinant proposal may negatively impact some customer classes?

b) How Does AMPCO suggest that the Board obtain the evidence it requires to accept or reject the AMPCO proposal or to accept some other proposal?

Response

a) We do not agree. We have seen no analysis to support the statement. The status quo creates an explicit cross-subsidy and that the elimination of that distortion, which would be an outcome of our proposal, would lead to cost shifting, but only in respect to transmission network costs. The extent to which this might affect customers and customer classes overall has not been assessed.

b) AMPCO anticipated that a comprehensive analysis would be provided to the Board pursuant to the direction it provided in its Decision with Reasons in EB-2008-0272. The unfortunate fact that it has not been provided, however, should not prevent the Board from making a positive decision for improved transmission rate design. There was no comprehensive impact analysis before the Board in RP-1999-0044 when it approved the current rate design, and no evidence has been put before the Board in any of the subsequent cases which demonstrates that the status quo is best. In our view, as supported by our submissions to the Board, there is clear evidence and sufficient analysis to allow the Board to conclude that a change is desirable and beneficial.

Building Owners and Managers Association of the Greater Toronto Area ("BOMA") & The London Property Management Association ("LPMA") Interrogatory # 8

At footnote 9, AMPCO states that *"Reforming network charge determinants for LDC customers so that they (a) conform to the design of the network transmission charge determinant approved by the Board for transmission customers, and (b) promote efficiency and efficient demand management, would, however, require investments and expenditures by LDCs to modernize settlement systems, and might also require expenditures by some customers to update meters and acquire or develop appropriate energy management tools. These issues are important, but beyond the scope of the current proceeding."*

Does AMPCO agree that the Board should consider the High Five Proposal, or any other proposal for changing the network cost bill determinant as part of a larger cost allocation and rate design process that would investigate, among other things, the estimate of network costs into base demand and peak demand costs, the allocation of these two types of network costs to customers, and the design of the recovery of these rates from transmission customers and distribution end use customers? If not, why not?

Response

No. The issue before the Board is the design of the network charge determinant. The Board has other means (and in fact has initiated processes) to address other matters raised.

Building Owners and Managers Association of the Greater Toronto Area (“BOMA”) & The London Property Management Association (“LPMA”) Interrogatory # 9

Has AMPCO done any analysis or calculations to show the impact on its members and other transmission customers, including each of the distributors on the annual transmission costs if the AMPCO methodology had been in place for 2009 and the charge determinants had been based on the 2008 data to set the billing determinants and recovered the approved 2009 revenue requirement? Is AMPCO aware of whether or not any party to the current rates proceeding has undertaken such an analysis?

Response

No.

Building Owners and Managers Association of the Greater Toronto Area ("BOMA") & The London Property Management Association ("LPMA") Interrogatory # 10

Based on the response provided by Hydro One Transmission in Exhibit I, Tab 6, Schedule 36, part (a) that shows that 3 of the 5 highest peak days occurred in January, does AMPCO still believe that a July through June 12 month period is appropriate? Please explain.

Response

Yes. In a weather normal year, the absolute system peaks are most likely to occur in the summer months. The fact that relative peaks occurred in other months in any particular year is irrelevant. If peaks occur in months other than the summer months, then the change we are proposing would provide a strong incentive for customers to reduce demand during those times. On balance, however, a baseline period from July through June is most likely to be most appropriate.