November 26, 2014

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

Re: Festival Hydro Inc. 2015 Cost of Service Electricity Distribution Rate Application
AMPCO's Final Submissions
Board File No. EB-2014-0073

Dear Ms. Walli:

Attached please find AMPCO's final submissions on the unsettled issues.

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

Sincerely yours,

Adam White
President
Association of Major Power Consumers in Ontario

Copy to: Festival Hydro Inc.

Association of Major Power Consumers in Ontario
www.ampco.org
65 Queen Street West, Suite 1510 P. 416-260-0280
Toronto, Ontario M5H 2M5 F. 416-260-0442

ONTARIO ENERGY BOARD

IN THE MATTER OF the *Ontario Energy Board Act 1998*, Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Festival Hydro Inc. for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of January 1, 2015.

AMPCO Final Submissions

November 26, 2014

EB-2014-0073
Festival Hydro Inc.
2015 Costs of Service Application

AMPCO Final Submissions

Introduction

- Festival filed an application April 25, 2014 for 2015 rates to be effective January 1, 2015. Festival has seven separate service territories: Stratford, St. Mary's, Seaforth, Dashwood, Hensall, Zurich and Brussels.

- Festival and Intervenors reached a partial settlement that was filed October 23, 2014.

- The following issues remain unsettled:
    - Value of rate base in 2015
        - The proportion of working capital to determine the Working Capital Allowance
        - The treatment of costs related to a new Transformer Station (TS) and a related by-pass agreement
    - Request for additional funding through an Incremental Capital Module (ICM) to recover additional costs related to a new TS including amounts related to depreciation treatment
    - Proposed establishment of a new deferral account to record incremental OM&A costs
    - Level of OM&A expenses for 2015 to be factored into revenue requirement
    - Proposed fixed/variable ratio used to determine the distribution rates for General Service Greater than 50 kW

- AMPCO's submissions reflect the above issues. AMPCO worked closely with the other intervenors in this proceeding in the preparation of its submissions.

Background

The following issues underpin Festival's application and are relevant to the Board in determining the outstanding issues notes above.

Renewed Regulatory Framework for Electricity

- The Board's Renewed Regulatory Framework for Electricity Distributors (RRFE) released in October 2012 is a comprehensive performance-based approach to regulation that is based on the achievement of outcomes that ensure that Ontario's electricity system provides value for money for customers. The Board believes that emphasizing results rather than activities, will better respond to customer preferences, enhance distributor productivity and promote innovation.[1]

- The Board concluded that the following outcomes are appropriate for the distributors:

[1] Report of the Board Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach October 18, 2012 Page 2

EB-2014-0073
Festival Hydro Inc.
2015 Costs of Service Application

AMPCO Final Submissions

- *Customer Focus*: services are provided in a manner that responds to identified customer preferences;
- *Operational Effectiveness*: continuous improvement in productivity and cost performance is achieved; and utilities deliver on system reliability and quality objectives;
- *Public Policy Responsiveness*: utilities deliver on obligations mandated by government (e.g., in legislation and in regulatory requirements imposed further to Ministerial directives to the Board); and
- *Financial Performance*: financial viability is maintained; and savings from operational effectiveness are sustainable.

- The Board developed three main policies to facilitate the achievement of these four outcomes: rate-setting, planning (5 year capital plans) and measuring performance (scorecard).

- AMPCO's submissions in part address Festival's response to the above outcomes.

Customer Surveys

- The results of Festival's 2013 survey indicate that 77.02% of customers are satisfied with the existing level of reliability. Customers value service reliability (47.87%) and price (43.40%) most and they want Festival to focus on system improvements that decrease the frequency and duration of outages.

- Customers do not want Festival to make any in web-based outage maps or participate in social media, burying hydro lines, or providing real-time information if it means an increase in bills.[2] At the Hearing, Festival confirmed they are not making investments in these areas.[3]

- Festival is proposing investments related to the purchase of an electric vehicle to test the technology on the distribution system even though 90.79% of customers indicate that they do not plan to purchase an electric vehicle within the next 5 years. This issue is discussed below under Festival's proposed 2015 capital budget.

Scorecard

- Festival's 2013 scorecard[4] includes the following information:

    - *System Reliability*: SAIDI & SAIFU are improving since 2010. Festival indicates it is looking to keep reliability flat to slightly improving but is not looking at any major investments to change

---

[2] E1-T3-S1 Attachment 1, Q1-Q3, Q5, Q6
[3] Transcript Volume 1 Page 27
[4] E1-T2-S1-Attachment 1

EB-2014-0073
Festival Hydro Inc.
2015 Costs of Service Application

AMPCO Final Submissions

system reliability.[5]

- *Cost Per Customer:*

Operational Effectiveness	2009	2010	2011	2012	2013[6]
Cost per Customer	$563	$608	$606	$632	$627
% variance		7.9%	-	4.3%	-.1%
Costs per km of line	$39,836	$42,975	$43,848	$45,726	$49,466
% variance		7.8%	2%	4.4%	8.2%

- AMPCO notes cost per customer and costs per km of line are increasing at an average rate greater than inflation over the 2009 to 2013 period.

- Festival's efficiency ranking is currently in group 4 for 2014 rates. Total cost per customer and costs per km of line are projected to increase based on capital costs related to the transformer station and increased OM&A costs partially driven by the transformer station but also due to other costs discussed in OM&A below.

- *Financial Ratios:* The table above shows that Festival's actual return for 2011 to 2013 is at or above the deemed return and the level built into 2010 rates.

Regulatory Return on Equity	2011	2012	2013
Deemed	9.85%	9.85%	9.85%
Achieved[7]	11.71%	9.75%	10.90%

5 Transcript Volume 1 Page 27
6 OEB Website (2013 data)
7 J2.2

EB-2014-0073
Festival Hydro Inc.
2015 Costs of Service Application

AMPCO Final Submissions

PEG Efficiency Rankings

- The PEG report shows for 2011 to 2013, Festival's costs were 19.2% higher than PEG's econometric model predicted making Festival the seventh least efficient distributor.[8]

- Based on PEG's analysis, Festival was in the most efficient group (group 1) for the years 2010 to 2013. Then in 2014, Festival's ranking changed and it is now in the second least efficient group (Group 4). Festival explained that the change is due to the new methodology in 2014 used by PEG that reports on total cost per customer (OM&A and Capital) compared to OM&A per customer for earlier years. Festival's considers the main cost driver in the PEG analysis to be capital as Festival has invested in capital following the purchase of six other municipalities.

- At the hearing Festival indicated that based on OM&A costs, it is still the 20th lowest OM&A per customer company when comparing its 2015 budgets to 2013 actuals of other utilities.[9] Festival also agreed it is the 7th least efficient distributor in the Province.[10]

- If Festival accepts PEG's analysis as the baseline, Festival believes it would move from the 4th cohort to the 3rd cohort over a two and a half year period based on decreased capital spending beginning in 2015 (16% reduction over 2013) and over a10 year period it would be at benchmark spending.[11] In AMPCO's view customers should not have to wait 10 years for Festival to be at benchmark costs.

- Festival indicates capital costs are driving its higher costs. AMPCO has reviewed and analyzed Festival's proposed 2015 capital plan and submits a reduction of $162,000 is warranted.

- In AMPCO's view, Festival's OM&A costs are also driving its higher costs. AMPCO has reviewed and analyzed Festival's proposed 2015 OM&A budget and submits a reduction of $188,000 is warranted.

[8] Transcript Volume 1 Page 64-65
[9] Transcript Volume 1 Page 67
[10] Transcript Volume 1 Page 65
[11] Transcript Volume 1 Pages 39-40

EB-2014-0073
Festival Hydro Inc.
2015 Costs of Service Application

AMPCO Final Submissions

Capital Expenditures

- The Tables below shows Festival's historical spending for the years 2010-2013 and forecast and year to date (YTD) costs for 2014 and forecast costs for 2015 to 2019.

Capital ($)[12]	2010	2011	2012	2013	2014	2014 YTD August 2014	2015
Planned	3,747,000	3,391,803	3,409,000	3,443,000	2,773,000		
Actual	3,139,803	3,058,814	3,291,413	3,387,787		1,523,152	2,621,500
Variance	*-16.2%*	*-9.8%*	*-3.4%*	*-1.6%*			
Actual Contributed Capital $	479,049	106,480	342,654	154,000	150,000		120,000

	2016	2017	2018	2019
Planned Capital $	2,582,000	3,015,500	2,669,000	2,674,500
Contributed Capital $	120,000	120,000	120,000	120,000

- Festival's capital budget is formulated on a project by project basis[13] and the current states of the assets are in good condition[14] such that prioritizing overall spending is not required.[15]

- 77.02% of Festival's customers find that the existing level of reliability is acceptable.

- The main divers of Festival's proposed 2015 capital budget of $2,621,500 are as follows:
  - infrastructure replacements (57%)
  - general plant including IT, buildings and fleet (19%)
  - customer connections (12%)
  - reliability improvement (12%) related to reinsulation of overhead systems and replacement of live front padmounted switchgear.[16]

- In 2013, Festival had significant capital investments related to the construction of a new transformer station and two intangible assets – a permanent bypass agreement with Hydro One related to the new transformer station and a CCRA agreement with Hydro One related to their transformer station in St. Mary's. Festival has included $1.2M in 2015 rate base for the permanent bypass agreement. AMPCO has concerns regarding Festival's treatment of the permanent bypass agreement with Hydro

---

[12] E1-T2-S5 Appendix 2-AB
[13] E1-T2-S3 Page 3
[14] E2-T2-S1-Attachment 1 Page 44
[15] E2-T2-S1 Attachment 1 Page 34
[16] E1-T2-S5 Page 1

EB-2014-0073
Festival Hydro Inc.
2015 Costs of Service Application

AMPCO Final Submissions

One related to the new transformer station which is discussed in further detail below.

- As shown in the Table above, Festival has historically underspent on its capital plan over the years 2010 to 2013. 2014 actual spending to the end of September shows that Festival has spent 55% of its planned capital budget.[17] Festival stated that the hearing that it expects to spend its entire 2014 capital budget by year end. AMPCO notes Festival's trend in underspending is declining. AMPCO does not expect underspending will be an issue in 2015.

- In 2015, Festival proposes to spend $1,895,500 on infrastructure replacement (72%), $406,000 on growth (16%) and $320,000 (12%) on new technology.[18]

- AMPCO has specific concerns regarding proposed spending in 2015 in two areas: infrastructure replacements (wood poles) and new technology (electric vehicle).

Infrastructure Replacements

- Festival's capital plan includes the replacement of 100 poles at $6,500 each for a total of $650,000 which represents approximately 25% of the capital budget.[19]

- Festival's pole replacement program is focussed on wood poles and is paced to replace 100 wood poles per year over the next 10 years to ensure the number of poles older than 40 years remains constant over that period. AMPCO has concerns with Festival's pace of wood pole replacements.

- Of Festival's 6,220 poles, 3,484 are concrete poles and 2,736 are wood poles. Concrete poles have an expected life of 50 to 70 years. To date, the only concrete poles that have required repair or replacement have been damaged by motor vehicle accidents. Currently Festival has no plans to proactively replace concrete poles.[20] Of the wood poles about 700 poles are greater than 40 years of age or about 25%.[21]

- Festival is using 40 years as the estimated useful life of a wood pole. AMPCO notes that the expected end of life of a pole for Hydro One is 62 years.[22]

- Wood poles installed in 1952 and earlier are now 62 years and older. Based on Festival's wood pole age distribution data compiled in July 2013, approximately 275 wood poles were installed between 1950 and 1959 and a very small amount (less than 10) were installed in 1949 or earlier.[23] Assuming on average 27 wood poles were installed annually between 1950 and 1959, less than 100 wood

---

[17] Appendix J2.1 ($1,523,152/$2,773,000 = 55%)
[18]

[19] Transcript Volume 1 Page 73
[20] E2-T2-S2-Attachemnt 1-Appendix 1. Page 9
[21] Transcript Volume 1 Page 75
[22] KT1.2
[23] E2-T2-S2-Attachemnt 1-Appendix 1. Page 10

EB-2014-0073
Festival Hydro Inc.
2015 Costs of Service Application

AMPCO Final Submissions

poles are currently 62 years and older.

- Festival indicates it had to pick a line in the sand somewhere to replace a pole once it hits a certain age.[24] AMPCO submits there is a significant difference (22 years) between Hydro One's expected useful life and Festival's expected useful life for wood poles. AMPCO believes Festival's line in the sand for pole replacement has been drawn too soon and is not supported by pole condition and failure data. Festival does pole inspections and on a year-over-year basis and finds that 15 poles need to be replaced on an emergency basis. Festival indicates that over the past five years there have been no pole failures that were not caused by either motor vehicle accidents, lightening strikes or trees falling on lines.[25]

- AMPCO submits Festival's pace of wood pole replacement (100 poles per year) and level of funding ($650,000 per year) based on 40 years as an age demographic is at an accelerated pace that is not justified based on pole condition and failure data and should be reduced.

- AMPCO submits a 20% reduction in wood pole replacement to 80 poles per year is a more appropriate pace that reflects an expected service life between 40 and 62 years of age. A 20% reduction in the number of poles to be replaced reflects a $130,000 reduction in capital spending under System Renewal.

<u>Fleet – Electric Vehicle</u>

- Festival proposes to spend $135,000 on its fleet in 2015. $65,000 is for the purchase of 1 new pick-up truck and 1 trailer.[26] $70,000 is for the purchase of an electric vehicle in 2015 under new technology. Festival confirms that the electric vehicle reflects replacement of a vehicle and a test vehicle. The incremental cost over a standard vehicle is $30,000-$40,000.[27]

- Festival proposes to look at the effects of electric vehicles and how vehicle charging patterns affect transformer loading and end user voltage and provide data regarding O&M costs of an electric vehicle vs. a gas fuelled vehicle for long term operation decisions on future replacement plans.

- Bases on the customer survey results, 90.79% of customers surveyed indicate that they do not plan to purchase a vehicle within the next 5 years. 7.02% will only purchase an electric vehicle if the price difference decreases to less than $3000. 0.44% (2 customers) currently own an electric vehicle and 1.75% (8 customers) plan to purchase an electric vehicle in the next 5 years. [28]

- An analysis has not yet been completed by Festival for the purchase of an electric vehicle. However, before the purchase of an electric vehicle, Festival indicates it will speak with some other

[24] Transcript Volume 1 Page 76
[25] E2-T2-S1-Attachment 1, Page 9
[26] Appendix 4 - 2015 Board Capital Plan Page 15
[27] Transcript Volume 1 Page 28
[28] E1-T3-S1 Attachment 1, Q4

EB-2014-0073
Festival Hydro Inc.
2015 Costs of Service Application

AMPCO Final Submissions

distributors to gain insight on their programs to ensure efforts are not being duplicated.[29]

- Festival indicates it is trying to understand the influx in population in the City of Stratford with over 600,000 tourists per year visiting Stratford's Shakespearean Festival and the potential of electric vehicles in commercial locations (hotels, restaurants, shopping areas, bed & breakfasts).[30]

- AMPCO does not support the purchase of an electric vehicle in 2015 and the additional $30,000 to 40,000 in costs as it does not appropriately consider customer feedback in that the testing of electric vehicles on the distribution system is not warranted as over 90% of customers do not plan on purchasing such a vehicle in the next 5 years.

- AMPCO submits the extra cost to purchase of an electric vehicle is premature, discretionary and lacks the appropriate analysis and demand to support the funding and as such the Board should disallow $35,000 in Festival's 2015 capital budget under General Plant.

- Customers are most concerned with reliability and price. AMPCO submits its proposed reductions ($165,000)[31] to Festival's 2015 capital budget positively impact price and are not at the expense of reliability.

OM&A

- Festival is requesting recovery of total OM&A expenses in 2015 of

OM&A ($)[32]	**2010 Board Approved**	**2010 Actual**	**2011 Actual**	**2012 Actual**	**2013 Actual**	**2014 Forecast**	**2015 Forecast**
	3,980,676	4,039,859	4,002,784	4,739,503	4,950,908	5,016,404	5,156,282[33]
Variance over 2010							1,175,606 (29.53%)
# FTE[34]	45	47	45	47	47	45	45

- For 2015, Festival's updated proposed OM&A budget is $5,156,282; an increase of $1,175,606 compared to the 2010 rebasing year.

<u>2015 OM&A cost drivers</u>:

- 57% of the increase is related to uncontrollable costs:

[29] 2-OEB Staff-25
[30] 2-OEB Staff-25
[31] $130,000 + $35,000=$165,000
[32] Appendix 2-JA
[33] $5,139,182 + $17,100 (reg costs as per Appendix 2-M) = $5,156,282
[34] Appendix 2-L

EB-2014-0073
Festival Hydro Inc.
2015 Costs of Service Application

AMPCO Final Submissions

- New transformer station ($140,000)
- Incremental costs - smart meters
- Change from CGAAP to IFRS
- Increases in OMERS premiums

- 43% of the increase are controllable expenses largely driven by compensation increases:
  - Final wage progressions: 2.02% average annual increase beginning in 2015 (less than 2.5% average annual increase included in original application)

- AMPCO submits an increase of 29.35% over 2010 Board Approved OM&A amounts to an average increase of 5.87% per year which is significantly above inflation plus growth. In AMPCO's view this increase is too high and given the impact on rates AMPCO submits the increase is not consistent with the outcome of Festival's customer surveys where customers identified price as a primary concern.

- Festival's total updated compensation is projected at $4,487,474 for 2015. Compared to compensation levels in 2010 ($3,557, 575 Board Approved), 2015 OM&A represents an increase of $929,899 or 26% above 2010 Board Approved[35]. AMPCO notes the total compensation allocated to OM&A has increased since 2010; 86.8% in 2015 compared to 77.5% in 2010.

- As discussed in the background section of AMPCO's submissions, Festival's efficiency has declined in recent years on a total cost basis. In AMPCO's view, in addition to capital costs, Festival's OM&A costs are likely contributing this decline, given that there do not appear to be sustained productivity improvements over the IRM term.

- In responses to questions about what Festival is doing to become more efficient, Festival testified that it has not increased its headcount in the last five years since its last rebasing in 2010. Festival also referred to pay per employee compared to its neighbouring utilities, pole inspections to catch those that might critically fail, reducing the number of vehicles to make its fleet more efficient, and options to manage positions as examples of efficiency.[36]

- AMPCO reviewed the draft submissions of Energy Probe with respect to proposed OM&A reductions based on an extensive analysis by Energy Probe of Festival's OM&A increases since 2010 on a normalized basis. AMPCO supports a reduction in Festival's 2015 OM&A budget based on an envelope approach that allows Festival discretion as to how to manage its operating costs within that budget.

- Based on an envelope approach, Energy Probe proposes that an appropriate reduction in OM&A is between $104,000 and $272,000. AMPCO submits a reduction of $188,000, the midpoint between

[35] 4-OEBStaff-40
[36] Transcript Volume 1 Pages 68-69

EB-2014-0073
Festival Hydro Inc.
2015 Costs of Service Application

AMPCO Final Submissions

$104,000 and $272,000, is appropriate.

- Festival indicates it pays double time for overtime. For the years 2010 to 2014 Festival incurred on average $186,000 in annual overtime costs.[37] Festival indicates it has not undertaken any formal benchmarking of other distributors with respect to overtime pay. In AMPCO's view, time and a half is a more appropriate overtime rate. AMPCO submits a double time overtime rate is excessive and ratepayers should not have to pay the difference between time and a half and double time. AMPCO submits using a time and a half overtime rate compared to double time would reflect a 25% decrease in overtime costs. Based on historical average overtime costs, the reduction amounts to approximately $46,500 per year. AMPCO submits this reduction could be added to Energy Probe's list of specific OM&A reductions to be considered.

Rate Base

Working Capital Allowance (WCA)

- The Board's Filing Requirements state that the applicant can take one of two approaches for the calculation of its allowance for working capital: (1) the 13% allowance approach; or (2) the filing of a lead/lag study. The only exception is if the applicant has been previously directed by the Board to undertake a lead/lag study on which its current working capital allowance is based. Under such circumstances, the applicant must either continue to use the results of that study or, in the event it wishes to propose a revision to its allowance, the applicant must file an updated study in support of its proposal.[38]

- Festival's proposed WCA follows the 13% allowance approach. Festival confirmed it has not completed a lead/lag study and has not been directed by the Board to do so.[39] Festival did not provide any evidence on its actual working capital needs.

- AMPCO has reviewed the draft submissions of Energy Probe and SEC on this issue and support their thorough analysis that the default 13% WCA is based on an obsolete methodology that is out of date and does not accurately reflect cash flow requirements.

- Energy Probe and SEC take the position that the Board should set Festival's WCA based on an average of distributors who have filed recent lead/lag studies resulting in a WCA percentage of 9.5% and a reduction in rates of $195,000 per year or almost $1M over the IRM term. AMPCO submits Energy Probe and SEC have adequately demonstrated that that a 13% WCA is obsolete and does not reflect a distributor that bills customers on a monthly basis.

[37] J1.4
[38] Filing Requirements For Electricity Distribution Applications-2014 Edition for 2015 Rates July 18, 2014 Chapter 2, Page 19
[39] Transcript Volume 1 Page 20

EB-2014-0073
Festival Hydro Inc.
2015 Costs of Service Application

AMPCO Final Submissions

- AMPCO submits the use of the 13% default is not compatible with the concept of value for money for customers as under a 13% WCA, Festival's customers will be paying an overstated working capital amount.

- In summary, AMPCO submits the Board should not rely on the default 13% WCA in the determination of rate base and rates for Festival. Instead the Board should apply the 9.5% value determined based on the average of distributors who have filed recent lead/lag studies. The Board should also consider directing Festival to conduct a lead/lag study prior to its next cost of service application.

Stratford Transformer Station – ICM True-up

- As part of Festival's 2013 IRM application (EB-2012-0124), the Board approved Festival's ICM request to construct a new 62 MWA Transformer Station (TS) in 2013 to serve customers in Stratford. The Board approved total TS costs of $15,863,113 and an annual revenue requirement impact arising from the proposed cost of $7,854,730 based on $15,709,459 in eligible capital and application of the half year rule as Festival was originally scheduled to rebase for rates effective May 1, 2014.

- During the oral hearing Festival re-filed the ICM true up calculation evidence based on the fact that the asset was not energized until December 2013 and Festival's rebasing was moved out an additional year from 2014 to 2015.[40]

- Specifically, the ICM model was updated to reflect:

    - A reduction in the total TS spend reduced from the original ICM budget amount of $15,863,113 by $551,330 to reflect actual capital costs at December 31, 2013 of $15,311,782.
    - The incremental capital CAPEX based on the average of the 2013 and 2014 net asset balance for the TS balances, as reported on Exhibit 2, Tab 1, Schedule 1, page 3.
    - A full year's deprecation of $337,644.
    - A projected 2014 CCA claim of $1,017,004 updated from $951,896 in the original application to reflect updated asset components and depreciation schedules.

- The revised incremental revenue requirement based on the above true-up of costs, depreciation and CCA is $1,481,229 compared to the incremental revenue requirement of $1,120,867 approved in EB-2012-0124. The amount projected to be collected through the rate riders by December 31, 2104 totals $1,091,548. The difference between the amounts collected through the ICM rate rider and the true-up calculated revenue requirement leaves a shortfall of $389,681 to be recovered

[40] Day 2 Undertakings filed 20141118

EB-2014-0073
Festival Hydro Inc.
2015 Costs of Service Application

AMPCO Final Submissions

(updated from $415,111 in the original application).

- Although it was Festival's decision to defer its COS application from 2014 to 2015, AMPCO finds Festival's 13 month depreciation calculation to be appropriate. AMPCO takes no issue with the other aspects of the true-up calculation and submits recovery of the $389,681 variance is appropriate.

- As part of the ICM true-up calculation, Festival also proposes to recover incremental Operating, Maintenance and Administration (OM&A) expenses related to operating the new TS in the amount of $244,815 ($104,815 in 2013 and $140,000 in 2014). Festival proposes to include the $244,815 in operating costs in the rate rider amount for a total rate rider of $634,496.

- Festival included these O&M expenses in the ICM variance account #1508 in addition to the capital costs of constructing the TS, funding collected through the ICM rate rider since May 1, 2013 and carrying charges at rate of 1.47%.[41]

- For the reasons discussed below, AMPCO submits the inclusion of operating costs for 2013 and 2014 in account #1508 and the true-up calculation is not appropriate.

- Festival looks to what it did with smart meters, where there was significant capital and OM&A expenditures being incurred and final recovery would happen later on, as justification for including O&M in the ICM True-up. AMPCO submits the ICM is not at all similar to the smart meter Model.

- The ICM is designed to recover the incremental revenue requirement for capital expenditures beyond the amount approved in rates provided a distributor meets three criteria: need, materiality and prudence. There is no provision for incremental OM&A costs as part of an ICM. Further, Festival could have but did not request a deferral account as part of its 2013 IRM application to capture TS OM&A expenses for recovery in a future COS application. As such there is no mechanism for these costs to be recovered. To allow recovery of out of period expenses would result in retroactive ratemaking. AMPCO submits that Festival's request to recover incremental 2013 and 2014 TS OM&A should be denied by the Board.

- In considering the above, AMPCO submits that the rider amount for recovery should be based on $389,681, not $634,496 as proposed.

- Festival proposes that the ICM True-up be collected over a one year period effective January 1, 2015 using fixed /variable rate riders (Incremental Capital Rate Rider Option A). AMPCO takes no issue with using Option A as it was used to collect the original ICM rate rider.

Stratford Transformer Station – Permanent Bypass Agreement

---

[41] Undertaking JT1.12

EB-2014-0073
Festival Hydro Inc.
2015 Costs of Service Application

AMPCO Final Submissions

- Festival entered into a Permanent Bypass Compensation Agreement with Hydro One to allow for a bypass capacity estimated at 20 MW and a bypass compensation estimate of $1.2M payable by Festival to Hydro One. Festival was not aware of this requirement at the time of its ICM application and as a result did not include the cost of the bypass agreement in the original ICM rate rider.

- The need for the bypass agreement results from Festival's decision to bypass 20MW of existing load from Hydro One to be served from its new TS station as the new load that was expected to be served by the new TS did not occur. Festival indicates the bypass compensation is in accordance with Section 6.7.7 of the Transmission System Code.[42] The bypass agreement results in a benefit of $475,000 less Retail Transmission Service Rates (RTSR) payable by Festival customers.

- The issue in this proceeding is whether the bypass compensation amount of $1,230,026 should be treated as an expense or as an intangible asset to be included in 2015 rate base.

- Festival requests that the Board approve the inclusion of the $1.2M bypass agreement in 2015 rate base as an intangible asset. Festival believes the bypass agreement should be treated as an intangible asset on the basis it meets the IAS 38 Intangible Assets requirements. Festival included $1.2M in USOA Account# 1609 to be amortized over the life of the major components of the transformer station for 45 years.

- Board Staff takes the position that the $1.2M bypass agreement amount should be treated as an expense and not be recognized as an asset for regulatory purposes and therefore not included in rate base.

- At the Technical Conference, Festival was asked to provide a letter from its auditor that under IFRS a bypass agreement would be considered an intangible asset.[43] Festival's response after contacting the auditor was that they prefer not to provide an opinion to a governing body on a single accounting decision. Festival referred to previous submissions that the auditors have issued an unqualified opinion on the 2013 financial statements, which presents the permanent bypass as an intangible asset.

- At the hearing Parties revisited the issue with the same result. KPMG could not definitively agree that Festival's accounting treatment of the bypass compensation that's to be classified as an intangible asset is the correct treatment as the witness could not answer the question because KPMG does not provide opinions single, standalone transactions.[44]

- AMPCO agrees with Board Staff that the evidence and testimony provided by KPMG in this proceeding does not assist the Board in determining the nature and treatment of the bypass

---

[42] E2-T1-S1 Page 14
[43] Undertaking JT1.14
[44] Transcript Volume 2

EB-2014-0073
Festival Hydro Inc.
2015 Costs of Service Application

AMPCO Final Submissions

compensation costs for regulatory purposes.

- AMPCO submits the Board should deny Festival's request to treat the bypass agreement as an intangible asset to be included in 2015 rate base.

Rate Design – General Service (GS) 50 to 4999 kW Customer Class

- In setting 2015 rates Festival's approach was to maintain, to the extent possible, the fixed to variable split of existing rates with the added constraint of not decreasing the monthly fixed charge of any class for revenue stability purposes.[45]

- For the GS >50 kW customer class, Festival's 2014 monthly fixed charge is $227.57 which reflects a fixed to variable split of 25.28% to 74.72%. In order to maintain this fixed to variable split for 2015 rates, Festival proposed a fixed monthly charge of $253.49 in its original application, which Festival noted is above the range suggested by the cost allocation model.

- Festival revised its proposed monthly fixed rate for the GS>50 customer class in response to 7-OEB Staff-50 on the basis that the maximum fixed rate should be the greater of the Directly Related, Minimum System with PLCC Adjustment or the Existing Rate. For the GS >50 kW customer class, the proposed fixed rate can be no greater that current rates. i.e. $227.57 per month.

- The Board's Filing Requirements under section 2.11.1 states:

> "If a distributor's current fixed charge is higher than the calculated ceiling, there is no requirement to lower the fixed charge to the ceiling, nor are distributors expected to raise the fixed charge further above the ceiling."[46]

- In its Argument-in-Chief, Festival made the point that moving the fixed charge significantly can result in some individual bill swings for customers within the same rate class, and so as an element of rate stability and predictability for costing for its customers and avoiding confusion, Festival proposes to maintain the rates as set for the GS>50 kW customer class.[47]

- AMPCO submits that lowering the fixed monthly charge to the Minimum System with PLCC Adjustment or the ceiling determined in Festival's cost allocation model of $64.55[48] would unnecessarily impact rate stability and predictability for some customers in the GS>50 kW customer class and should be avoided.

[45] E8-T1-S1 Page 1
[46] Filing Requirements For Electricity Distribution Applications-2014 Edition for 2015 Rates July 18, 2014 Chapter 2, Page 53
[47] Transcript Volume 2 Page 96
[48] Updated Cost Allocation Model 20141123 Sheet O2

EB-2014-0073
Festival Hydro Inc.
2015 Costs of Service Application

AMPCO Final Submissions

- AMPCO supports Festival's updated proposal to maintain the status quo for the GS>50 kW customer class on the basis that it is consistent with the Board's Filing Guidelines and provides rate stability and predictability of costing for its customers.

- AMPCO submits the Board should approve a monthly fixed rate of $227.57 for the GS>50 kW customer class.

Recovery of Reasonably Incurred Costs

- AMPCO submits that its participation in this proceeding has been focused and responsible.

- Accordingly, AMPCO requests an order of costs in the amount of 100% of its reasonably-incurred fees and disbursements.

All of which is respectfully submitted this 26th of November 2014.