



July 13, 2016

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

Re: Application for Hydro One Inc. to purchase Great Lakes Power Transmission Inc.
AMPCO's Final Submission
Board File No. EB-2016-0050

Dear Ms. Walli:

Attached please find AMPCO's submission in the above proceeding.

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

Sincerely yours,

(ORIGINAL SIGNED BY)

Mark Passi
Chair, Board of Directors

Hydro One Inc.
Application for Approval to Purchase Great Lakes Power Transmission Inc.

AMPCO Final Submissions

Hydro One Inc. (HOI) filed an application on March 18, 2016 under section 82(2)(b) of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15 (Schedule B), seeking approval to purchase the voting shares of Great Lakes Power Transmission Inc. (GLPT).

In this application, HOI requests the following relief:

- Leave to purchase all outstanding voting securities of GLPT.
- Acceptance of the proposed rate rebasing deferral period.
- Acceptance of the proposed earnings sharing mechanism (ESM).
- Acceptance of the proposed methodology to calculate GLPT's 2019 revenue requirement and for each subsequent year during the rate rebasing deferral period.

Leave to purchase all outstanding voting securities of GLPT

A cash payment of \$222 million has been agreed to by the parties for the Purchased Securities of GLPT.¹ The value of the transaction equates to approximately 2% of Hydro One's Fixed Assets. The amount of premium associated with the transaction is approximately \$150 million. HOI confirmed the transaction will not have a material impact on HOI's financial ratios or borrowing capacity.²

GLPT's OEB approved revenue requirement is approximately 2.6% of the total revenue requirement recovered through the Uniform Transmission Rate. GLPT has an approved rate base of \$218.7 million. HOI's acquisition of GLPT increases its share of the transmission system in Ontario from 94.6% to 96.8%.

AMPCO submits HOI has reasonably provided sufficient evidence to support the proposed consolidation of HOI and GLPT. AMPCO accepts that the transaction may result in system reliability benefits through coordinated planning efforts and regional system knowledge.

The OEB must assess the merits of the consolidation in meeting the public interest. In reviewing the application, the OEB will apply its "no harm" test which considers whether the proposed transaction will have an adverse effect on the attainment of the OEB's statutory objectives, as set out in section 1 of the OEB Act. AMPCO submits the transaction reasonably demonstrated that it will not cause harm to the OEB's fulfillment of its statutory obligations. AMPCO submits leave to purchase all outstanding voting securities of GLPT should be granted.

Rate Rebasing Deferral Period

¹ Exhibit A, Tab 1, Schedule 1 Page 3

² Exhibit I, Tab 3, Schedule 7

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HOI selected a 10 year rate rebasing deferral period commencing on the closing date of the transaction. Rates would be rebased effective January 1, 2027 assuming the transaction closes before or during the first quarter of 2017. The rate rebasing deferral period is intended to give HOI the opportunity to realize cost savings to offset transaction costs and premiums incurred in respect of the transaction. In 2017 and 2018, GLPT and HOI will begin to identify areas of longer-term operational savings and synergies. HOI indicates realized savings will be achieved in 2019 and beyond.

AMPCO does not support the 10 year period selected for rebasing deferral for the following reasons.

The OEB has determined that a longer rebasing period is appropriate to incent consolidation.³ The OEB's recent policies for up to a 10 year deferred rebasing period were put in place to further encourage consolidations of electricity distributors, based on its own expectations as well as those of government. Conversely, the OEB's recent policy has been to encourage new entrants to transmission in Ontario.⁴ In AMPCO's view, the 10 year rate rebasing deferral period was not contemplated by the OEB as a needed incentive to encourage consolidation for transmission. The OEB Handbook notes that while the Handbook is applicable to both electricity distributors and transmitters, most of the OEB's policies and prior OEB decisions have related to distributors. Transmitters should consider the intent of the Handbook and make appropriate modifications as needed to reflect differences in transmitter consolidations.⁵ HOI indicates that the proposed rebasing period accords with the duration requirements described in the Handbook and therefore should be accepted.⁶ In AMPCO's view HOI has not modified its request to reflect the different incentives between distribution and transmission consolidations. AMPCO submits that instead of a 10 year rate rebasing deferral period, a 5 year period is more appropriate for this transaction and provides a reasonable opportunity to use savings to offset costs.

Coincident with the proposed 10 year rate rebasing deferral period, GLPT expects to file a rate application in 2016 for approval of its 2017 and 2018 revenue requirements and the approved revenue requirements would be used to calculate the UTR established for those years.⁷ The result is a 2 year cost of service period followed by an 8 year rate rebasing deferral period, not a 10 year rate rebasing deferral

³ OEB Handbook dated January 19, 2016 Page 12

⁴ EB-2011-0140 / EB-2015-0216

⁵ OEB Handbook dated January 19, 2016 Page 2

⁶ HOI AIC July 8, 2016 Page 7

⁷ Exhibit A, Tab 1, Schedule 1 Page 8

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period. AMPCO submits the plan has to be one or the other but not both. If GLPT rebases for 2017 and 2018 rates, a rebasing deferral period should not be granted. It is not appropriate for GLPT to rebase in followed by an 8 year rate rebasing deferral period. In AMPCO's view this approach does not promote competitive, fair and efficient rates for GLPT customers. Rebasing is deferred through application of the OEB's policy. If the proposed deferred rebasing period begins at the close of the transaction, it is not appropriate to establish GLPT's 2017 and 2018 revenue requirement on a cost of service basis. In AMPCO's view this approach is not consistent with the objectives of the OEB Handbook.

Earnings Sharing Mechanism (ESM)

HOI proposes to implement an ESM during the last 5 years of the deferral period (years 6 to 10) in order to share GLPT's earnings on a 50:50 basis where the portion of the achieved return on equity is more than 300 basis points above the ROE approved by the OEB for 2018 in GLPT's 2017 and 2018 rates application. Any shared amount will be used as a reduction in a subsequent year revenue requirement calculation.

As stated above, AMPCO's does not support a 10 year rate rebasing deferral period. However, should the OEB approve a 10 year rate rebasing deferral period, AMPCO submits HOI's ESM proposal is appropriate and consistent with the OEB's Handbook.

Proposed Methodology to Calculate GLPT's Revenue Requirement in 2019 and Beyond

GLPT and HOI have not adopted an IRM method of rate regulation in the past. Both entities, however, intend to do so commencing in 2019, midway through the deferred rebasing period.⁸

Commencing January 1, 2019 and throughout the deferral period, HOI proposes to calculate GLPT's revenue requirement based on an annual adjustment for inflation. HOI indicates that this methodology is intended to provide rate certainty to customers.⁹ HOI seeks acceptance of this proposed methodology.

The OEB's Handbook indicates that rate-setting following a consolidation will not be addressed in an application for approval of a consolidation transaction unless there is a rate proposal that is an integral aspect of the consolidation e.g. a temporary rate reduction. Rate-setting for the consolidated entity will be addressed in a separate rate application, in accordance with the rate-setting policies established by

⁸ Exhibit I, Tab 1, Schedule 6, Page 2

⁹ Exhibit A, Tab 1, Schedule 1, Page 9

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the OEB.¹⁰ HOI acknowledges this aspect of the Handbook and explains that the circumstances of its transaction are unique when compared to the rate-setting options during the deferred rebasing period outlined in Table 1 of the Handbook, thus requiring the OEB to assess the rate-setting proposals on a case by base basis.

As discussed above, AMPCO does not support a 2017 and 2018 cost of service application for GLPT coincident with a 10 year rate rebasing deferral period. In AMPCO's view a 5 year rate rebasing deferral period is reasonable and as such, the starting point revenue requirement for any proposed methodology should be GLPT's 2016 revenue requirement.

AMPCO's objective is industrial electricity rates that are competitive, fair and efficient. Electricity rate predictability is important to AMPCO members. In AMPCO's view the OEB should assess HOI's rate-setting proposal given that it does not fall into the rate-setting options outlined in Table 1 of the OEB Handbook.

Should the OEB decide to make a determination on HOI's proposed methodology to Calculate GLPT's annual revenue requirement, AMPCO make the following comments on the methodology.

AMPCO supports a methodology that provides rate certainty over the deferral period, however, AMPCO submits HOI's proposed methodology to calculate GLPT's revenue requirement requires further enhancements to fit within the expectations of the OEB's regulatory framework and the requirement for continuous improvement in productivity and cost performance. HOI's proposal essentially sets the productivity and stretch factor at 0%. AMPCO submits this approach is not appropriate and is inconsistent with the OEB's Renewed Regulatory Framework for Electricity. This is important because the OEB assesses applications for consolidation within the context of its regulatory framework.¹¹ Continuous improvement for customers should have no less potential of occurring as a result of this transaction.

AMPCO submits the annual adjustment methodology needs to include a productivity and stretch factor that drives further efficiencies. This will provide value for money for customers.

AMPCO notes the OEB has not established productivity and stretch factors for transmission companies. This would have to be addressed as part of the rate-setting process.

¹⁰ OEB Handbook dated January 19, 2016 Page 11

¹¹ OEB Handbook dated January 19, 2016 Page 5

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AMPCO Conclusions

- AMPCO supports the consolidation of HOI and GLPT.
- AMPCO does not support a 10 year rate rebasing deferral period for HOI and GLPT. AMPCO submits a 5 year rate rebasing deferral period is appropriate given the different incentives between distribution and transmission consolidation transactions.
- AMPCO does not support setting the revenue requirement for GLPT for 2017 and 2018 on a cost of service basis while the rebasing period is in effect. It has to be one or the other. If GLPT's revenue requirement is set on a cost of service basis for 2017 and 2018, there should be no rate rebasing deferral period.
- HOI's ESM proposal is appropriate should the OEB approve HOI's request for a 10 year rate rebasing deferral period.
- AMPCO values electricity rate predictability and supports a methodology to calculate GLPT's revenue requirement during the deferral period. However, the OEB should not accept HOI's proposed methodology to calculate GLPT's annual revenue requirement unless a productivity and stretch factor are included. A methodology based on an inflation factor only or a productivity and stretch factor set at 0% is inconsistent with the OEB's regulatory framework and the requirement for improvements to productivity and cost performance.