



June 30, 2017

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

Re: EB-2016-0356 Hydro One Sault Ste. Marie LP, 2017 Transmission Rate Application  
AMPCO Submission

Dear Ms. Walli:

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

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

Sincerely yours,

*(ORIGINAL SIGNED BY)*

Colin Anderson  
President  
Association of Major Power Consumers in Ontario

Encl.

Copy to: Hydro One SSM

**Hydro One Sault Ste. Marie LLP  
2017 Transmission Revenue Requirement  
EB-2016-0356**

Great Lakes Power Transmission (GLPT) LP, now Hydro One Sault Ste. Marie LP (Hydro One SSM) filed an application with the Ontario Energy Board (OEB) on December 23, 2016 under section 78 of the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, (Schedule B) seeking approval to change its electricity transmission revenue requirement effective January 1, 2017.

Background

On March 18, 2016, Hydro One Inc. (Hydro One) filed an application to purchase all voting shares of GLPT. Subsequent to the filing of this consolidation application, GLPT filed a rate application on August 26, 2016 for approval of its 2017 and 2018 revenue requirement.

In its October 13, 2016 Decision on Hydro One's acquisition of GLPT, the OEB approved the transaction and Hydro One's proposal to defer the rebasing of rates for GLPT for a 10-year period but did not accept the proposal that rates for GLPT must be reset at the beginning of this 10-year period.

The Board found that GLPT can continue with its existing revenue requirement and may bring forward a separate rate application to seek approval for the elements of a specific revenue cap index framework, for the deferral period. Such an application would be expected to encompass the following components as required by the Transmission Filing Requirements: the annual adjustment (expected inflation, productivity, stretch factors) and proposed performance reporting and monitoring (draft scorecard, RRR filings, etc.).<sup>1</sup> AMPCO's submissions are focussed on the proposed annual adjustment factors and performance reporting and monitoring.

Current Application

In this application, Hydro One SSM seeks OEB approval for the 2017 base revenue requirement of \$40,533,904 based on the price cap incentive regulation framework (Price Cap IR) used for distributors. The base revenue requirement was calculated using Hydro One SSM's 2016 OEB approved Revenue Requirement as the base revenue requirement (\$39,778,120)<sup>2</sup> adjusted by an annual adjustment under the revenue cap index framework for 2017 which is modelled after on the price cap incentive regulation framework (Price Cap IR) used for distributors.

The proposed annual adjustment to the revenue requirement in 2017 is 1.90% (\$755,784)<sup>3</sup> based on an inflation factor of 1.90% less a productivity factor of 0% and a stretch factor of 0%.<sup>4</sup>

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<sup>1</sup> EB-2016-0050 Page 19

<sup>2</sup> 1-1-2 P2

<sup>3</sup> 4-1-1 P4

<sup>4</sup> 1-1-2 P3

**Hydro One Sault Ste. Marie LLP  
2017 Transmission Revenue Requirement  
EB-2016-0356**

Hydro One SSM intends to maintain the proposed revenue cap index framework for the full 10-year deferral period and plans to file annual revenue cap adjustment applications.<sup>5</sup>

Hydro One SSM proposes to use the same annual productivity and stretch factors as Hydro One Transmission starting in 2019. Hydro One Transmission intends to file a Custom IR application for 2019 rates that will propose an annual productivity factor and stretch factor.

Inflation Factor

Hydro One SSM proposes to use an inflation factor of 1.9%, as calculated by the OEB for distributors, given that the OEB has not established a specific inflation factor for transmitters, and transmitters share many of the same inputs as distributors.

AMPCO submits it is appropriate for Hydro One SSM to use the Board's inflation factor for distributors for 2017, in the absence of a specific inflation factor for transmitters. However, AMPCO agrees with Board Staff's analysis that the weighting of labour and non-labour components may differ between segments. AMPCO supports Board's Staff's position that Hydro One SSM's future transmission applications should consider a review of costs to determine the appropriate inflation factor.

Productivity Factor

Hydro One SSM has set the productivity factor at 0% given the OEB approved productivity factor for distributors for the 2017 test year.

AMPCO acknowledges that the OEB has not approved productivity for Ontario transmitters and accepts that for 2017, it is reasonable for Hydro One SSM to use the Board's productivity factor for distributors. However, in advance of its next application in 2019 Hydro One should be required to undertake a Total Factor Productivity (TFP) Study.

Stretch Factor

Hydro One SSM proposes a stretch factor of 0%. AMPCO acknowledges that the OEB has not approved stretch factors for Ontario transmitters. However, based on the results of a benchmarking study undertaken by First Quartile Consulting (1QC)<sup>6</sup>, Hydro One SSM's performance does not reflect the best quartile, and AMPCO submits a stretch factor of 0% is not appropriate.

1QC analyzed the costs of the operation of Hydro One SSM's transmission system, in comparison to 11 other transmitters in North America. 1QC considered Transmission Lines & Substations Operating and Maintenance (O&M) expenses and Administrative and General (A&G) expenses.<sup>7</sup> Capital spending was

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<sup>5</sup> Ex 8-2-1

<sup>6</sup> Ex 3-1-4 Appendix A First Quartile Consulting Benchmarking Report June 21, 2016

<sup>7</sup> Ex 3-1-4 Appendix A P1

**Hydro One Sault Ste. Marie LLP  
2017 Transmission Revenue Requirement  
EB-2016-0356**

not considered in the analysis.<sup>8</sup> The study only compares OM&A costs and is not a total cost benchmarking study. AMPCO submits the OEB needs to take this into account in determining the appropriate stretch factor for Hydro One SSM noting that 70%<sup>9</sup> of Hydro One SSM's revenue requirement costs were not considered in the benchmarking analysis.

The 1QC Report provides the following results which show that none correspond to top performance and a stretch factor of 0%:<sup>10</sup>

- Transmission Lines & Substations O&M plus A&G per Gross Asset 2013-2018: Hydro One SSM's costs are slightly below average on a cost per asset basis, slightly below the 2<sup>nd</sup> quartile.
- A&G per Gross Asset 2013-2018: Hydro One SSM's costs are significantly above average and are expected to remain around 3<sup>rd</sup> quartile.
- O&M costs without A&G costs 2013 to 2018: Hydro One SSM's costs are slightly above first quartile.

The benchmarking results can be best correlated to the stretch factors based on quintile results found in 3-SEC-4. Hydro One SSM's Transmission Lines & Substations O&M plus A&G per Gross Asset results fall between the second and third quintile.

1QC notes in its report that because of its unique size, rural geographic location and dense vegetation, there are very few true "peers" for comparison to Hydro One SSM.<sup>11</sup>

Taking into consideration the limited costs considered in the benchmarking analysis, a peer group that is dubious, AMPCO submits a stretch factor of 0.45% is appropriate. A stretch factor of 0.45% corresponds to an annual adjustment of \$576,783<sup>12</sup>, a reduction of \$179,001 in 2017 revenue requirement.

In 2017, Hydro One will continue to operate as a stand-alone licensed transmitter.<sup>13</sup> Under incentive regulation, a stretch factor reflects the potential for incremental productivity gains. In advance of any significant operational integration steps and the consolidation of Hydro One SSM and Hydro One, which is anticipated to begin in 2019, AMPCO submits it is reasonable to expect that Hydro One SSM will achieve additional efficiency gains. This aligns with the Board's expectations of efficiency and productivity gains during incentive regulation. A stretch factor of 0.45% ensures that the benefits from Hydro One SSM's greater efficiency as a stand-alone transmitter are appropriately shared with the customer.

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<sup>8</sup> 3-SEC-4

<sup>9</sup> 3-SEC-4 (d)

<sup>10</sup> Ex 3-1-4 Appendix A P2-3

<sup>11</sup> Ex 3-1-4 Appendix A P1

<sup>12</sup> 4-SEC-8

<sup>13</sup> 2-1-1 P3

**Hydro One Sault Ste. Marie LLP  
2017 Transmission Revenue Requirement  
EB-2016-0356**

Future Benchmarking

AMPCO submits capital spending should be included in all future benchmarking reports.

Performance Reporting & Monitoring

Hydro One SSM proposed an initial scorecard which is the same scorecard proposed by Hydro One in EB-2016-0160.<sup>14</sup>

For many of the measures in the scorecard, there are no targets set for the measure. The explanation is that Hydro One SSM intends to work with Hydro One to determine the target as part of the integration process.

To improve measurement of Hydro One SSM's performance and improve the ability to record the achieved results into the evolving scorecard, Hydro One SSM has identified several improvement initiatives aligned with specific performance outcomes.<sup>15</sup> However, for all the initiatives, the proposed timelines are to be developed as part of the integration process into Hydro One in 2019.<sup>16</sup>

Given Hydro One SSM will operate as a stand-alone transmitter in 2017 and 2018, it is reasonable to expect that Hydro One SSM could have set some performance targets for 2017 and 2018 and report their progress against the targets for each year.

In the absence of specific targets and implementation timelines on the scorecard, the Board is unable to monitor Hydro One SSM's performance and determine if expected performance outcomes are being achieved prior to consolidation. AMPCO submits this is a significant shortcoming of Hydro One SSM's IR application.

AMPCO agrees with Board Staff that Hydro One SSM should re-submit a proposal in its 2018 IR application.

Asset Management Plan

The Settlement Agreement in Hydro One SSM's 2015 and 2016 rate application (EB-2014-0238) required Hydro One SSM to undertake to submit to the Board a more detailed and comprehensive Asset Management Plan as part of its next rate application."<sup>17</sup>

Hydro One SSM did not file a detailed and comprehensive Asset Management Plan in this application as it is in the midst of working with Hydro One Networks to assess and revise its asset management approach. Given that for 2017 and 2018, Hydro One SSM will continue to operate as a stand-alone licensed transmitter, AMPCO submits Hydro One SSM should have filed information on its asset

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<sup>14</sup> 3-SEC-3

<sup>15</sup> 3-1-2 P5

<sup>16</sup> 3-SEC-4

<sup>17</sup> EB-2014-0238 Page 11

**Hydro One Sault Ste. Marie LLP  
2017 Transmission Revenue Requirement  
EB-2016-0356**

management approach and spending levels for the two-year period prior to consolidation in order to meet the commitment of the Settlement Agreement and communicate how Hydro One SSM's assets will be managed in the short term.

AMPCO submits Hydro One SSM should provide current information on the management of its assets in its 2018 IR application.