AMPCO

October 16, 2017

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

Re: EB-2016-0160 Hydro One Networks Inc. 2017/2018 Transmission Rate Application
AMPCO Final Submissions

Dear Ms. Walli:

AMPCO has reviewed Hydro One's letter dated October 10, 2017 regarding implementation of the OEB's Decision in the above proceeding and provides the following comments regarding the impact of the capital spending reductions.

In its Decision, the OEB approved a capital envelope of $950 million for 2017 and $1,000 million in 2018; a reduction of $126.1 million in 2017 and $122.2 million in 2018. The OEB approved a capital envelope of spending as opposed to a specific set of projects. The OEB requires Hydro One to incorporate these reductions, in terms of overall impact on in-service additions, in the revenue requirement/charge determinant approval process.[1]

AMPCO has concerns regarding Hydro One's proposed impact on in-service additions (ISA) and proposed allocation of the capital reductions across capital budget categories.

Impact on ISA

Hydro One proposes that the 126.1 million and 122.2 million capex reductions in 2017 and 2018, work out to in-service addition (ISA) reductions of $63.7 million in 2017 and $31.3 million in 2018. Thus, Hydro One is proposing that the outcome of total OEB reduction in Capital of $248.3 million is a $95 million reduction in ISA.

As shown in the Table below[2], Hydro One's proposed ISA reductions in 2017 and 2018 reflect 50% and 26% of the capital reduction in those years, which is significantly below the Test Year Evidence ISA to CAPEX ratios of 87% and 108% in 2017 and 2018, respectively.

In the absence of detailed information on the projects affected by the capital reductions, and given the evidence in this proceeding regarding the ratio of ISA to capital expenditures forecast in the test years, Hydro One's proposed impact on ISA from the OEB's capital reductions represents a significant change from the evidence, is not reasonable and has not been justified.

When the Test Year ratios are applied to the OEB's capital reductions, the resulting ISA reductions are $109.2

[1] OEB Decision September 28, 2017 Page 31

[2] Hydro TX DRO Pages 2 to 3

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and $131.7 in 2017 and 2018, respectively.   The in-service additions should be reduced by these amounts, consistent with the evidence in this proceeding.

HONI October 10, 2017 Implementation of OEB Decision
Capital Reductions
EB-2016-0160

	Test Years Evidence		Test Years Decision		Variance $		Variance %		
	2017	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	
Capital $ M									
Sustaining	776.8	842.1	758.9	780.4	-17.9	-61.7	14.2%	50.5%	32%
Development	196.4	170.2	117.2	109.9	-79.2	-60.3	62.8%	49.3%	56%
Operations	25.4	30.8	13.0	42.9	-12.4	12.1	9.8%	-9.9%	0%
Common Corporate Cost Capital	77.6	79.1	60.9	66.8	-16.7	-12.3	13.2%	10.1%	12%
	1076.1	1122.2	950.0	1000.0	-126.2	-122.2	100.0%	100.0%	100%
In-Service Additions $ M									
Sustaining	771.1	747.7	728.3	773.5	-42.8	25.8			
Development	64.6	374.9	72.2	308.7	7.6	-66.2			
Operations	8	10.3	4.4	9.7	-3.6	-0.6			
Common Corporate Cost Capital	87.8	76.8	62.9	86.5	-24.9	9.7			
	931.5	1209.7	867.8	1178.4	-63.7	-31.3			
ISA:CAPEX Ratio	*87%*	*108%*			*50%*	*26%*			
Appliction of Test Year ISA:CAPEX Ratio					***-109.2***	***-131.7***			

Allocation of Capital Reductions

With respect to Hydro One's proposed allocation of the $248.3 million in capital reductions, AMPCO notes that 56% is allocated to Development; 32% to Sustaining; 0% to Operations and 12% to Common Corporate Cost yet Sustaining capital represents the largest component of Hydro One's proposed investment program (72% in 2017 and 75% in 2018)[3]; it shows the largest increase over historical 2012 to 2016 spending levels[4]; and the OEB determined that Hydro One's sustaining investments have not been fully supported.[5] The OEB's concerns about the proposed capital budget were focussed more on Sustaining capital than the other budget categories.

In AMPCO's view, Hydro One's proposal to apply almost double the capital reductions to development capital over sustaining capital is inconsistent with the OEB's reasons for the capital reductions in its Decision and further justification is required.

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

[3] OEB Decision September 28, 2017 Page 29
[4] Page 26
[5] Pages 29 to 30

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