November 18, 2020

Ms. Christine Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th floor
P.O. Box 2319
Toronto, ON M4P 1E4

Re: Hydro One Networks Inc. Distribution 2021 Rate Application
AMPCO Final Submissions
Board File No. EB-2020-0030

Dear Ms. Long:

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

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

Regards,

Colin Anderson
President
Association of Major Power Consumers in Ontario

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EB-2020-0030

Hydro One Networks Inc.
Application for electricity distribution rates and other charges effective January 1, 2021

AMPCO Submissions November 18, 2020

Hydro One Networks Inc. (Hydro One) filed an annual rate update application with the Ontario Energy Board (OEB) on August 31, 2020 under section 78 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15, (Schedule B) seeking approval for changes to its electricity distribution rates to be effective January 1, 2021.

Hydro One requests approval of the 2021 distribution rates and charges, effective January 1, 2021, by way of an update to: (i) the revenue requirement currently approved by the OEB; (ii) the associated customer and load forecast by rate class as approved by the OEB for 2021; and (iii) the disposition of deferral and variance accounts.

AMPCO's submissions relate to Hydro One's request to dispose of the balances in the deferral and variance accounts and the Earnings Sharing Mechanism (ESM) account. In addition, AMPCO has included submissions related to the proposed adjustments to the Revenue Cap and HONI's application of the stretch factor to its capital spending amounts.

<u>Disposition of Deferral and Variance Accounts Balance</u>

As part of 2019 distribution rates and charges (EB-2017-0049), the OEB approved the disposition of the following balances:

- Group 1 principal balances as of December 31, 2014 in addition to fifty percent of the $121.8 million IESO credit in RSVA-GA account and interest to June 30, 2019; and

- Group 2 principal balances as of December 31, 2016 and interest to June 30, 2019.

In the current application, the Group 1 accounts balance for Hydro One Distribution is a credit of $26.2 million based on 2019 audited balances and forecasted interest for 2020.

<u>Earnings Sharing Mechanism</u>

In EB-2017-0049, the OEB approved an asymmetrical ESM that would apply to all years of the Custom IR plan. The ESM will share regulated earnings on a 50:50 basis between Hydro One and its customers for all earnings in excess of 100 basis points above the OEB-approved return on equity. A deferral account was established for Hydro One to record any amounts to be shared during the rate period.

The ESM credit balance to be disposed of in this application reflects both a credit of $1.2M in 2018 and a credit of $20.2M in 2019. In 2019, the achieved ROE was 1.9% higher than the deemed ROE of 9.0% owing to weather and achieved productivity reductions, offset in part by increased operations, maintenance, and administration expenses.

Although the OEB requires disposition only when the threshold of $0.001/kWh is exceeded, and Hydro One Distribution's Group 1 balance is slightly below the OEB's disposition threshold of $0.001/kWh[1], Hydro One is proposing to take into account the disposition of the ESM deferral account, and in doing so the threshold is exceeded.[2]

The ESM deferral account includes a credit balance of $21.7 million ($21.4 Million plus forecast interest for 2020). Taken together with the Group 1 accounts credit balance of $26.2, Hydro One is proposing a disposition credit of $48.0 million to customers.[3]

AMPCO supports Hydro One's proposal to combine the amounts and dispose of the $48 million credit to ratepayers now, subject to the comments below.

Hydro One is requesting final disposition of Group 1 balances.[4] Hydro One is also seeking final disposition of the 2018 and 2019 ESM amounts.[5]

AMPCO submits disposition of the Group 1 balances and ESM amounts should be interim, not final. Based on issues raised by Board Staff in its interrogatories, AMPCO submits final disposition of Group 1 balances should be interim to allow for these issues to be resolved. As part of the OEB's findings in EB-2019-0043, the OEB states "The ESM deferral account is to be reviewed as part of the 2021 rate application and will also be reviewed for disposition in Hydro One's next rebasing application."[6] In AMPCO's view this means that disposition of the account should be interim in 2021, and final as part of the next rebasing application.

Custom Revenue Cap Index Adjustment

The OEB approved a five-year Custom IR plan (2018-2022) with the revenue requirement to be adjusted annually through a revenue cap index (RCI).[7] The approved formula is: RCI = I - X + C, where:.

- I is the Inflation Factor
- X is the Productivity Factor (Productivity + Custom Stretch Factor)
- C is Hydro One's Custom Capital Factor

The inflation factor is set by the OEB each year. The OEB approved a productivity factor of 0% and the stretch factor of 0.45%. In addition, the OEB imposed an additional 0.15% stretch factor to be subtracted from the calculated Capital Factor. This is in addition to the 0.45% stretch factor applied to the revenue requirement.

Following discussions with School Energy Coalition's (SEC) and after reviewing SEC's detailed submissions regarding issues identified by SEC with respect to Hydro One's calculation of the Capital Factor , AMPCO agrees with SEC that there is a significant deficiency in Hydro One's calculation of the Capital Factor which was approved in EB-2017-0049. The method Hydro One applied to calculate the

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[1] -$26.2 M / 35 TWh = -$0.0008/kWh
[2] -$48.0 M / 35 TWh = -$0.0014/ kWh
[3] 2021 Rate Application P10 Table 2
[4] OEB Staff IR-1 (a)
[5] OEB Staff IR-17 (e)
[6] EB-2019-0043 Decision and Rate Order P6
[7] EB-2017-0049 Decision and Order P20

Capital Factor is inconsistent with the purpose of a stretch factor, the intent of the Board's Decision with Reasons in EB-2017-0049 and with how it is calculated by other utilities.

The stretch factor component of the X-factor is intended to reflect the incremental [efficiency] gains that distributors are expected to achieve under IR and is a common feature of IR plans.[8] The Decision in EB-2017-0049 states "The OEB expects Hydro One to stretch itself more to find additional initiatives and to consider new approaches to its business. The OEB is therefore imposing an additional stretch factor for the capital factor of 0.15% to incent further productivity improvements throughout the term, and to provide customers the benefit from these additional improvements upfront.[9] The clear intent of increasing the capital stretch factor, from 0.45% to 0.60%, was to reduce the capital revenue requirement by reducing annual capital spending through productivity improvements. Instead of applying the 0.6% stretch factor to the percentage formula, Hydro One applied it to the current year capital revenue requirement, without taking into account any productivity requirements in prior years.

In 2021, SEC has calculated the impact. Hydro One will over-collect on capital by about $11.4 million. In 2022, the overcollection would be about $17.3 million.[10] Hydro One is not incented to stretch itself more to find additional initiatives and to consider new approaches to its business and as a result consumer benefits are lost.

AMPCO submits that the Board should correct this significant deficiency in the underlying Custom IR methodology for Hydro One for 2021, so that the intended purpose and benefits of the approved capital stretch factor are appropriately applied to calculate the capital related revenue requirement, consistent with the intent of the OEB's Decision and how other utilities such as Toronto Hydro calculate it. Without this adjustment, the additional capital stretch goal to demonstrate enhanced effectiveness and continuous improvement has not been appropriately implemented, and the upfront benefits to customers are not achieved. This adjustment would reduce the 2021 revenue requirement by $11.3M from $1,588.43M to $1,577.0M.[11]

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[8] EB-2010-0379 Report of the Board ate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario's Electricity Distributors P12

[9] EB-2017-0049 Decision with Reasons P32

[10] SEC Submission P5

[11] SEC Submission P7