Borden Ladner Gervais LLP
Lawyers • Patent & Trade-mark Agents
Scotia Plaza, 40 King Street West
Toronto, Ontario, Canada M5H 3Y4
tel.: (416) 367-6000 fax: (416) 367-6749
www.blgcanada.com

JAMES C. SIDLOFSKY
direct tel.: 416-367-6277
direct fax: 416-361-2751
e-mail: jsidlofsky@blgcanada.com

BORDEN
LADNER
GERVAIS

Delivered by E-Mail & Courier

August 18, 2008

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

Dear Ms. Walli:

Re: Hydro One Network Inc. – 2008 EDR
OEB File No.: EB-2007-0681

We are counsel to the Association of Major Power Consumers in Ontario ("AMPCO") in the above-captioned matter. We enclose two redacted copies of AMPCO's Final Argument in this proceeding. The redactions pertain to an undertaking response in respect of which Hydro One has requested confidentiality. Confidential unredacted versions of the argument will be delivered to the Board, Hydro One and those individuals who have executed the Board's form of Confidentiality Undertaking.

BORDEN LADNER GERVAIS LLP

Original signed by James C. Sidlofsky

James C. Sidlofsky

encl.
copy to:

Adam White, President, AMPCO
Donald Rogers, Counsel to Hydro One
Intervenors of Record

::ODMA\PCDOCS\TOR01\3878617\1

EB-2007-0681

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

AND IN THE MATTER OF an application by Hydro One Networks Inc. for an order approving or fixing just and reasonable rates and other charges for the distribution of electricity.

ARGUMENT OF THE ASSOCIATION OF MAJOR POWER CONSUMERS IN ONTARIO ("AMPCO")

REDACTED

August 18, 2008

BORDEN LADNER GERVAIS LLP
Barristers and Solicitors
Scotia Plaza
40 King Street West
Toronto, Ontario M5H 3Y4

James C. Sidlofsky
Tel: (416) 367-6277
Fax: (416) 361-2751
jsidlofsky@blgcanada.com

Counsel to AMPCO

TABLE OF CONTENTS

Introduction

The Association of Major Power Consumers in Ontario ("AMPCO") is a not for profit consumer interest advocacy organization. Its mission is to promote the global competitiveness of Ontario industry through an efficient electricity sector that produces competitive electric rates and provides an economic, open, reliable transmission and distribution network. AMPCO has a long history of participation in Ontario Energy Board ("Board") proceedings that directly affect its members' electricity-related costs, including Hydro One Networks Inc.'s ("Hydro One's") distribution and transmission rate applications.

AMPCO can accept that Hydro One's revenues must be adequate and predictable to serve its customers reliably, service its debt and make the necessary investments to service new supply and demand.

However, the Board's guiding objectives in respect of electricity-related matters also require the Board to protect the interests of consumers with respect to prices, and to promote economic efficiency and cost effectiveness in the distribution of electricity.[1] The current state of the Ontario economic situation, reflected in both customer and load growth, suggests that Hydro One should be taking a more measured approach to increasing both its rate base and its work programs. AMPCO is concerned that Hydro One's proposals to maintain program increases begun in 2006 and to markedly increase staff resources in 2008 are misaligned with underlying business drivers and the needs of customers.

Hydro One is, by its evidence, in a period when customer growth is slowing and load growth is declining and possibly reversing in future years[2]. While it is recognized that the industry faces many challenges that tend to drive cost upwards, slowing growth in demand for its services and assets should be driving Hydro One to look for innovative solutions to improve asset utilization, reduce cost and limit growth in its rate base.

[1] *Ontario Energy Board Act, 1998*, as amended, S.O. 1998, c.15, Schedule B (the "OEB Act")
[2] Ex. A/ Tab 14/ Schedule 3, Section 2

AMPCO is also aware that this is assumed to be Hydro One's last full cost of service application prior to implementation of 3rd generation IRM in 2009. This raises concern about the risk that Hydro One's proposals could, if accepted by the Board, result in an excess of embedded costs, staff and work programs that will not be open to challenge for another four years. The large proposed increases in staff, OM&A and project budgets only serve to amplify this concern.

With respect to customer classification and rate harmonization for the acquired LDCs, Hydro One has clearly made a large effort to "get it right" and deserves credit for the extent and quality of its work. However, there does appear to be a need for the company to approach implementation with somewhat more flexibility in those few cases where a logical process has led to some unfair consequences.

From the evidence and testimony, there appear to be problems with Hydro One's selection and use of density criteria, as these appear arbitrarily rooted in past practice and are not built on a sound basis of information and analysis. It may be that 12 customer classes is too few for such a large distributor serving a very large and diverse territory.

Lastly, AMPCO submits that Hydro One's approach to cost allocation is inconsistent and indicates that the company has at least partly treated cost allocation not as a principle of sound rate design, but as a tool to serve other requirements. AMPCO submits that this approach is unfair to customers generally and should be rejected.

AMPCO discusses these and other matters in greater detail in the body of this submission. AMPCO's comments have been organized according to the issues as set out in the Board-approved Issues List. Where there are no comments in respect of an issue, AMPCO takes no position on that issue.

1. Administration

Issue 1.2 Has Hydro One responded appropriately to the Board's direction on CDM and Line Loss reduction?

AMPCO is satisfied that Hydro One has made its best efforts to cost effectively reduce line losses and that no further funding in this area would be economic at this time.

AMPCO is also supportive of Hydro One's plan to maintain expertise in CDM with a modest budget that allows it develop program proposals and retain expertise, but not to embark on significant CDM programs on its own.

Issue 1.5 a) Have the impact of Conservation and Demand Management initiatives been suitably reflected in the load forecast? Is Hydro One's load forecast compatible with the OPA load forecast?

AMPCO submits that there is some difficulty with the way in which Hydro One appears to be forecasting energy sales, especially after allowing for CDM.

The following table replicates information from Hydro One's load forecast evidence for its retail customers for the years 2006 and 2008, together with Hydro One's actual weather corrected results for these same years[3],[4]. All figures are weather normal.

Year	GWhr Forecast Before CDM	GWHr Forecast After CDM	Actual GWhr (Weather Corrected)
2006	23,115	22,921	23,115
2007	23,256	22,944	23,278

This is admittedly a small sample, but it does seem clear that Hydro One's Forecast, which claims to have been before allowing for CDM, is quite accurate and actually

[3] Ex.. A/ Tab 14/ Schedule 3/ page 20, Table 4
[4] Ex. H/ Tab 11/ Schedule 5/ Page 2

perfect in the 2006 case. On the other hand, the load predicted after allowing for CDM impacts is lower than actually occurred.

Looking at the data, there seem to be four possible explanations for the fact that actual results more closely match the "before CDM" forecast than the "after CDM" forecast:

1. Hydro one has supplied incorrect data.
2. Hydro One's weather normalization of actual results is flawed in some way
3. The pre-CDM forecast actually incorporates CDM results (i.e., final forecast double counts CDM)
4. CDM programs are totally ineffective or are being cancelled by unpredicted load growth (i.e., the base forecast is low).

It is difficult for a non-expert to sort out where the problem is, or whether the data set is untrustworthy for one reason or another. However, it does seem that Hydro One is underestimating total energy sales, on the order of about 300 GWhr for 2007.

AMPCO has noted VECC's analysis and calculations in respect of this matter, and its recommendation that the 2007 forecast be revised on the basis of a provincial demand reduction in 2007 of 800MW vs the 1,000MW Hydro One used in its forecast. This difference would explain a good part of the gap between forecast and actual.

AMPCO also supports the VECC position with respect to Hydro One adjusting for CDM in 2008 on the basis of the 0.8 TWhr the OPA has forecast for the province as a whole.

3. Cost of Service

Issue 3.1 Are the overall levels of the 2008 Operation, Maintenance and Administration budgets appropriate?

In argument-in-chief, Mr. Rogers correctly suggested that intervenors would want to talk about the increases in cost between 2006 and 2008[5] and that this may be due to a fondness on the part of intervenors to illustrate "large increases over a several year period".

From 2006 to 2008 is a period of two years, not several years. Moreover, since 2006 was the last year for which Hydro One prepared a cost of service application, it represents the appropriate base of comparison for the current application.

It is true that, aside from smart meter accounts, Hydro One's proposed budgets for 2008 are not significantly higher than its 2007 costs and in some cases are lower. However, accepting 2007 as a proper basis of comparison would not be appropriate, as neither intervenors nor the Board had the opportunity to comment on these budgets.

If Hydro One had wanted its 2007 costs to form the base year for examining its 2008 proposal, it could have submitted a COS application for 2007. Instead, it chose not to expose these budgets to Board review and should not now expect anyone to accept these levels of spending as a proper base for evaluation going forward.

Hydro One proposes to increase its OM&A costs from $404.1M in 2006 to $477.7M in 2008[6], an increase of 18.2% in two years. The primary drivers for the increase are shared services and other OM&A and the vegetation management program, which together account for $70.2M, or over 95% of the proposed increase. These two items have their own issue numbers and are treated individually as Issues 3.2 and 3.3 below.

In its evidence, Hydro One noted that the 2004-2008 increase would be 38% in total if approved.

[5] Transcript, Volume 7, page 16
[6] Ex. C1/ Tab 2/ Schedule 1/ Page 2, Table 1

Whether 2004 or 2006 is used as a base for comparison, the proposed increases far exceed inflation.

Such an extraordinary claim on consumers should require extraordinary evidence from the proponent. The burden of evidence should, at minimum, meet three requirements. First, the current situation should be demonstrably deficient to an extent that it is obvious current program levels cannot sustain reliability of service, worker and public safety, or meet other statutory requirements of the company. Second, the company must demonstrate that is doing everything it can to improve the efficiency of its operations without increasing cost. Third, the company must demonstrate that it has carefully considered alternatives to the proposed approach, such as, for example, outsourcing programs or more gradually increasing accomplishment through process improvement.

AMPCO submits that the evidence before the Board and brought out in the hearing does not meet the standard that Hydro One's request should require.

Hydro One's service reliability meets Board requirements, as is discussed further in Issue 3.2 below. Since reliability is commonly agreed to be a lagging indicator of past program accomplishments, this is telling evidence, since budgets prior to 2006 were significantly lower.

Nor has Hydro One shown real enthusiasm or success as controlling its costs or productivity. This is discussed by AMPCO and others in examining the vegetation management program in particular, and in Issues 3.3 and 3.6 below.

Finally, nowhere in the evidence has Hydro One presented innovative proposals to improve processes or accomplish work by means other than with internal staff.

In sum, AMPCO submits that Hydro One has not sufficiently justified the program and cost increases it proposes. AMPCO supports the position of the CME that, excluding the Smart Meter Program, Hydro One's 2008 OM&A budget should be between $406m and $423M.

Issue 3.2 Is the 2008 vegetation management budget appropriate?

Hydro One's proposed forestry budget represents a large increase from historic levels and is also driving increases in other areas of concern, such as staff levels and T&WE requirements[7].

No one can argue with Hydro One's voluminous evidence that, all other things being equal, higher levels of line clearing (and perhaps also brush control) accomplishment will result in reductions in tree-caused outages. All the data and studies presented tend to reinforce what is intuitively obvious.

The issue is whether Hydro One's approach to managing forestry and its proposal to continue spending ever more money in this area is appropriate.

Aside from public safety issues related to some tree species in populated areas, the key reason for vegetation management by a utility is to maintain or improve reliability.

It is a settled issue (1.6) for this hearing that Hydro One is meeting the OEB's specified reliability standards. The specific service quality indicators that are used to analyze the effectiveness of a forestry program are the SAIDI and SAIFI measures, which measure the duration and frequency of outages. Hydro One refers to the effects of trees with respect to these indicators repeatedly in its analyses, including the statement that "Vegetation Management is the largest program managed by Hydro One Distribution and has the greatest impact on system reliability[8]".

In its evidence reporting on Service Reliability indicators, Hydro One presented this table[9]:

[7] Ex. H/ Tab 12/ Schedule 29, page 1, lines 20-29
[8] Ex. C1/ Tab 2/ Schedule 2, page 31, lines 2-7 is typical
[9] Ex. A/ Tab 15/ Schedule 1, page 7, Table 2

Table 2
Service Reliability Indicators

Performance Measure	2004 OEB Tgt	2004 Act	2005 OEB Tgt	2005 Act	2006 OEB Tgt	2006 Act	2007 OEB Tgt	2008 OEB Tgt
SAIFI *Frequency of Interruptions* (#of interruptions per customer)	••3.0	3.1	••3.1	2.9	••3.1	2.9	••3.1	••3.1
SAIFI including *Force Majeure*		3.2**		3.9†		5.2††		
SAIDI *Duration of Interruptions* (hrs of interruption per customer)	••9.4	6.5	••9.4	8.0	••8.0	7.1	••8.0	••8.0
SAIDI including *Force Majeure*		6.9**		14.5†		28.4††		
CAIDI *Average Interruption Time* (#of hrs per interruption)	••3.1	2.1	••3.0	2.8	••2.6	2.4	••2.6	••2.6
CAIDI including *Force Majeure*		2.2**		3.7†		5.5††		

**See explanation in section "2004 Force Majeure Events"
† See explanation in section "2005 Force Majeure Events"
†† See explanation in section "2006 Force Majeure Events"

It is clear that Hydro One has met or exceeded its SAIFI and SAIDI targets in all cases, with the exception of SAIFI in 2004. At the system level, the reliability evidence does not suggest any deterioration, at the very least.

AMPCO submits that Hydro One's service quality performance does not indicate an emergent problem with respect to reliability, that would necessitate large increases in sustainment programs, without first examining these programs for productivity improvement opportunities.

In response to a Board staff interrogatory, Hydro One produced a report titled "2008 Vegetation Management Review" dated March 12, 2008, approximately 7 months after Hydro One first submitted its proposed revenue requirement[10]. This report in turn referenced a forestry benchmarking report prepared by CN Utility Consulting, Inc. In the oral hearing, Hydro One undertook to produce the report; with the qualification that it

[10] Ex. H/ Tab 1/ Schedule 14/ Attachment B

remains confidential in order to protect the intellectual property rights of the authors and perhaps also to protect information proprietary to other organizations[11].

The benchmarking report was requested for two reasons. First, the Hydro One vegetation management review contained several references to it in the form of graphs and other data, which were claimed to support its analysis concluding that a shorter cycle length is warranted and is an economically effective objective.

Second, the economic analysis contained in the Hydro One review looks almost exclusively at the effect of cycle length on program cost, cost per kilometre, etc. Despite its title as a ”Vegetation Management Review” it did not appear to examine any other drivers of cost for Hydro One’s vegetation management program.

Any complex work activity has a number of factors that affect both total and unit cost. These include not only the volume and difficulty of the work to be done, but also the way in which work is organized and the input costs of labour, equipment and materials. It was logical to conclude that a third party benchmarking study, executed for a number of clients, might contain insight into aspects of Hydro One’s forestry activities relative to other companies, other than a narrow focus on clearing cycles.

In order to respect the confidentiality requirement, this submission will not reproduce here any specific data or graphs in the report, but will instead direct the reader to the specific sources, charts and pages in the report. While a reader without access to the report will be able to follow the line of argument, only with the actual report in hand will one be able to view and confirm the referenced information as well as check the argument against other portions of the report if he/she so desires. Where necessary, AMPCO has redacted references to certain items from the public version of this argument.

[11] Undertaking J2.5

The following discussion has also been worded so that no reader could obtain cost information about other specific utilities or even about precise average costs for the group of utilities in the study.

Part of the discussion will of course reveal the scope of the benchmarking report, which one might argue is itself confidential information. However, prior to the request for the undertaking, AMPCO undertook an internet search and found that CN consulting provides the Table of Contents for its benchmarking study publicly on the internet, so this matter should not be a concern[12]. The following discussion assumes that panel members and Hydro One counsel have access to the CN Utility Consulting report.

To start, the CN Utility Consulting report maintains confidentiality by the usual technique of assigning numbers to participating companies, which can nominally only be decoded with a "key". Participating companies are only told what their specific number is.

In the undertaking, Hydro One did not provide its assigned company number. However, Hydro one is fairly unique among utilities, so an informed reader using publicly available information can quickly determine that Hydro One is # 12 in the group. If this is incorrect, Hydro One counsel can so inform the panel.

Starting on page [redacted], the CN Utility Consulting report examines relative dollar productivity for a number of participating utilities. Hydro One (Company # 12) information is only available on one chart, [redacted]. The summary chart, Chart [redacted] – Cost per Line Mile also does not obviously contain Hydro One data (one column, the highest unit cost, is not labeled in the copy provided by Hydro One). At the top of Chart [redacted], the average price per mile is provided. Hydro One has provided information that its current average unit cost per KM is somewhat above $8,000/km[13]. This would calculate to around $13,000 per mile, well above any other utility in the CN report. Adjustments for exchange rates, inflation and other non-labour factors could not come close to bridging this productivity gap.

[12] www.cnutility.com/images/Benchmarking%20Contents%20Second%20Edition.pdf
[13] Ex. H/ Tab 1/Schedule 14, Attachment B, page 15, Figure 4.4.

In the internal "Vegetation Management Review", Hydro One provided estimates in Table 3.3 on page 10 of what it would cost to manage its rights of way under different cycle lengths. Even at a 6 year cycle, which Figure 3.1 on page 11 suggests would have the lowest total cost, Hydro One's total per kilometre cost of vegetation management would be $4,605/km. Assuming an 80 cent dollar and 1.6 km/mile, this would translate into $4,605 X1.6 X 0.8 = $5,894 per mile. This is more than [redacted] the average cost for utilities shown in Chart [redacted] of the benchmarking report. Another section of the Benchmarking report [redacted] looks at how the different utilities in the Benchmarking cohort pay their forestry workforce. There are several charts [redacted] in this section, dealing with the wages and salaries for several job types, including management, journeyman and contract staff.

There are three observations that can be quickly made by reviewing these charts:

1. Contract staff cost less than internal staff for forestry work.

2. Hydro One (Company #12) has not reported costs for contract staff.

3. Where Hydro One reports wages, it consistently has the highest or second highest wages in the group. To illustrate, according to Chart [redacted], Hydro One pays a ground person (semi-skilled labour) more than the average that other utilities pay a contract foreman (chart [redacted]).

Clearly, a large portion of Hydro One's high cost of vegetation management can be attributed to its high wages (both management and union) and lack of use of contract labour.

In Section [redacted] of the benchmarking report, the issues of unionization and use of contract labour are examined. Again, Hydro One's practices stand out as exceptional, even among unionized utilities.

In 2006, Hydro One spent $89.1M on line clearing, brush control and the associated accounts[14]. This was somewhat below what the Board had approved. However, even at this reduced level, if Hydro One had managed 12,500 km of right of way with this expenditure, the unit cost would have been $89.1M/12,500 = $7,128/km. This equates to $11,400/mi. This level would be more than [redacted] above the amount spent per mile by the least productive utility reporting to the CN Utility Consulting 2006 benchmark report and more than [redacted] times the cohort average[15].

One could respond that there are obvious differences between the utilities in the benchmark group with respect to exchange rates, species, tree density, climate zones, inflation since 2006 and so on. Such criticisms would be valid, but the magnitude of the differences, together with the evidence on wages and contracting factors clearly points to a problem with Hydro One's ability to execute its program efficiently.

To summarize, the productivity gulf between Hydro One and the utilities it has benchmarked itself against is larger than the unit cost improvement it hopes to achieve by reaching an eight year cycle. Were Hydro One to achieve the productivity of its fully unionized comparator companies, it would have more than sufficient budget at 2006 approved levels to achieve an eight year cycle.

AMPCO submits that the Board should direct Hydro One to find the resources it requires to increase its vegetation management accomplishments through process and productivity improvement and not through an unwarranted increase in the revenue requirement.

[14] Ex. C1/ Tab 2/ Schedule 2, page 30, Table 9
[15] Undertaking J 2.5, [redacted]

Issue 3.3 Is the proposed level of 2008 Shared Services and Other O&M spending appropriate?

Shared services costs, especially in the areas of Common Corporate Functions and Services and Asset Management are proposed to rise as significantly as other O&M costs.[16]

However, AMPCO agrees with the position of the CME that OM&A should be constrained to an overall budget envelope, allowing Hydro One to manage within this envelope according to its best judgment.

Issue 3.6 Are the 2008 Human Resources related costs (wages, salaries, benefits, incentive payments, labour productivity and pension costs) including employee levels, appropriate?

AMPCO has commented on this issue in part in the discussion on Issue 3.2, the vegetation management program, which identifies that wages and salaries appear to be significantly higher than for similar organizations, at least in the vegetation management function.

AMPCO is also aware that Hydro One will be submitting a benchmarking report on wages and salaries as part of its forthcoming transmission rate application.

AMPCO is deeply concerned about Hydro One's apparent inability to improve its total productivity, including labour productivity. In its evidence, Hydro One makes the statement that "Hydro One Distribution has been successful in containing costs and undertaking productivity initiatives[17]" Later, Hydro One makes the statement that "beyond the 2008 test year, Hydro One anticipates that it may be capable of rising to the challenge of achieving an annual 1% productivity target, as was the case in the OEB's second generation IRM[18]"

[16] Ex. C1/ Tab 2/ Schedule 6, page 3, Table 1
[17] Ex. C1/ Tab 1/ Schedule 1, page 3, lines 4-6
[18] Ex. C1/ Tab 4/ Schedule 2, page 17

To illustrate its productivity improvement progress, Hydro One produced a chart that shows it has been increasing its work program spend per employee steadily since 2005[19]. With respect, industrial productivity is not measured by spending per employee, with the possible exception of purchasing agents. It is measured by per-unit work accomplishment, denominated by dollars or hours.

AMPCO submits that Hydro One has not produced credible evidence that Hydro One's labour productivity is appropriate or improving at an acceptable rate.

Of equal concern is the proposed increase in staff resources by Hydro One for 2008. Hydro One proposes to increase total staff complement by over 20% in 2008[20], about half of whom are apparently regular staff additions[21]. This will be net of retirements and other attrition.

AMPCO is concerned about this increase for three reasons. First, rapid increases in labour resource are very difficult for any company to handle without negative impacts on productivity and efficiency. Second, it is more difficult to reduce staff than increase it, especially for a company where most staff work under collective agreements. Finally, Hydro One's distribution business is not growing at a rate that would justify staff increases of this size.

As with the OM&A programs, AMPCO submits that the best approach to address this issue is to constrain the program expansions proposed by Hydro One.

Issue 3.10 Is the level of Hydro One initiated and or delivered CDM activity and budget level appropriate and should it be funded by the OPA or in rates?

It would be a concern to AMPCO if Hydro One were to develop and implement significant CDM programs on its own that may overlap, compete or conflict with the program responsibility of the OPA.

[19] Ex. C1/ Tab 2/ Schedule 2, page 15, figure 3
[20] Transcript, Volume 3, page 46, lines 15 to 21
[21] Transcript, Volume 3, page 48, lines 20 to 24

As a distributor, Hydro One's business objectives are not inherently aligned with l objectives to reduce electricity use and requirements for its assets.

AMPCO submits that generally, CDM programs should be funded by the OPA, which in turn should allocate the costs for these programs appropriately.

4. Rate Base

Issue 4.2 Are the amounts proposed for 2008 Capital Expenditures appropriate?

Hydro One's capital expenditures are projected to increase from $392.6M in 2006 to $566.2M in 2008[22], an increase of $173.6 M.

Metering costs, due primarily to the smart metering program, are projected to go from $15.7M to $167.3M in the same period, an increase of $151.6M[23].

Without including smart meters, the capital increase would be $22.0M on a base of $376.9M, or slightly less than 6%. While this is not overly excessive, it may be reduced further, subject to reductions in Shared Services and other Capital noted in Issue 4.6 below.

Issue 4.6 Is the proposed level of 2008 Shared Services and Other Capital expenditures appropriate?

The proposed Shared Services and Other Capital budgets are increasing in total from $57.4M in 2006 to $77.8M in 2008[24].

The major differences are in Transport and Work Equipment ($31.3M in 2006 to $39.2M in 2008) and Information Technology ($19.3M in 2006 to $43.3M in 2008).

Since the Cornerstone projects that account for the bulk of the increase in Information Technology costs have already been approved in EB-2006-0501 and appear to be being managed within budget, these costs are accepted.

The increase in the Transport and Work equipment budget is being justified by Hydro One largely on the basis of increases in its work programs and increases in staff, which in turn are driven by work program increases[25].

---

[22] Ex. D1/ Tab 3/ Schedule 1, page 2, Table 1
[23] Ex. D1/ Tab 3/Schedule 2, page 3, Table 1
[24] Ex. D1/ Tab 3/Schedule 5, page 1, Table 1

If the Board accepts the recommendation of the CME, supported by AMPCO, that the increase in Hydro One's OM&A programs be constrained, then it should be expected that this portion of the Shared Services capital budget would also be reduced.

AMPCO recommends that the Board direct Hydro One to adjust its Shared Services capital budgets in to fit with the level of OM&A work programs it approves.

[25] Ex. H/ Tab 11/ Schedule 29, page 1 of 1

6. Regulatory Assets

Issue 6.2 Is the proposal to establish new Deferral and Variance Accounts appropriate?

Bill Impact Mitigation Variance Account

Hydro One has proposed the establishment of this account in order to avoid average customer class rate increases in excess of 10% per Board direction[26]. Hydro One has also proposed that the amount in this account at the end of 2008 would be recovered from all customers in future years.[27]

In cross examination, Hydro One has confirmed that the origin of this shortfall is in the need to avoid having average customer class total bill impact exceed 10% for the R1 customer class[28].

In evidence, Hydro One has also identified that the proposed rate schedule will result in a revenue to cost ratio of 0.88 for the R1 customer class. This class will provide $211M of Hydro One's proposed $1,064M revenue requirement, slightly less than 20% of the total [29].

Effectively, Hydro One is proposing in rate design that the R1 class should continue to be subsidized by other customer groups and then, via the proposed variance account, will receive a second subsidy when over 80% of the variance account is collected from other customers.

Hydro One has estimated that the amount of the Bill Impact Mitigation Variance Account will likely be on the order of $2.5M[30].

If the Board approves the establishment of the proposed Bill Impact Mitigation Variance Account, AMPCO submits that since the account is being established for the sole

[26] Ex. F1/ Tab3/ Sch 1/ page 2, lines 1-17
[27] Ex G1/ Tab 3/ Sch 1/ Page 4, lines 4-9
[28] Transcript, Volume 4, Page 48, lines 17-21
[29] Ex. G1/ Tab 3/ Sch 1/ Page 4, Table 2
[30] Ex. F1/ Tab 3/ Schedule 1/ page 2, lines 8 to11

benefit of one clearly identifiable class of customers, the Board should confirm that any account balance that may recoverable at a later date will be recoverable only from those same customers. In oral hearing, Hydro One acknowledged that it was open to this solution and that its goal was simply to collect the revenue shortfall from its harmonization proposal[31].

Pension Cost Differential Variance Account

It is unclear from the evidence and testimony that the size of this account would be material.

Absent much stronger evidence than Hydro One has provided, the Board should deny the request for a Pension Cost Variance Account.

OEB Cost Differential Variance Account

Hydro One should have a good idea of what its distribution related regulatory costs will be over the next year, so it is difficult to understand the value of this account. Moreover, it is unclear from the evidence exactly what Hydro One defines as a regulatory expense, especially in the area of studies that have not been explicitly ordered by the Board.

AMPCO submits that, for a regulated monopoly, regulatory costs fall into the broad category of the "cost of doing business", and that Hydro One should be able to budget for regulatory costs as it does for other parts of its budget.

AMPCO recommends that the Board deny Hydro One's request for for an OEB Cost Differential Variance Account.

LRAM

AMPCO supports Hydro One's position that it cannot effectively implement an LRAM at this time.

[31] Transcript, Volume 4, page 48, line 2 to page 49, line 20

7. Cost Allocation and Rate Design

Issue 7.1 Are Hydro One's proposed new Customer Rate Classes Appropriate?

To AMPCO's knowledge, Hydro One's proposed customer classification changes would have the major load facilities of all AMPCO members that are served by Hydro One, as well as all embedded distributors, reclassified into the new ST class.

AMPCO notes that the definition for assignment to the ST class is different for embedded distributors than for industrial clients, in that industrial clients have to meet a combination of criteria that include demand and service voltage, whereas all embedded distributors are automatically assigned to this class without regard to service or demand[32]. This inclusion may be justified on the basis that Hydro One's ST Class rate has been designed to fully capture the cost of providing service to embedded distributors.

The proposal to include all embedded distributors in the ST class should also mitigate the risk of rate pancaking for residential and general service customers served by embedded distributors.

AMPCO agrees that Hydro One's proposal to include unmetered scattered loads (USL) as GS-e with a metering credit is the correct approach for this specific group. The vigorous effort by the Rogers Cable counsel to establish that cable amplifiers are being over-charged was noted. However, for this group to receive special consideration would require both revisiting the cost allocation process and, probably, the establishment of a separate class for a particular type of equipment. Such a detailed review may well result in a higher cost allocation than Hydro One currently proposes, or the requirement for higher energy use equipment to be metered. AMPCO respectfully submits that special consideration based on either industry or equipment type is not adequately supported by the evidence in this case.

[32] Ex. G1/ Tab4/ Schedule 4, page 1, lines 8 to 13

There appear to be issues with Hydro One's criteria for customer classifications based on density, specifically with the urban classifications. In its evidence, Hydro One defined the urban classification criteria as 60 customers per kilometer and a minimum critical mass of 3,000 contiguous customers. Other than stating that this criterion is unchanged, no rationale for it was given[33]. In cross examination, Hydro One's witness could only state that the 3,000 contiguous customer criterion had been around for several years, since 1996[34]. This period was well prior to unbundling, the *Electricity Act, 1998* and the establishment of a rigorous, transparent cost allocation methodology.

The urban classification criteria are important to the entire classification and harmonization process, as the urban classification will pay both a significantly lower fixed charge than R1 ($14.32 vs. $19.04) and a significantly lower volumetric charge ($2.29/kWhr vs. $2.60/kWhr)[35].

Applying the density and critical mass criteria that Hydro One proposes has produced a result such that most residential customers in the acquired LDCs will be classified R1 and not UR (72,682 vs. 61,147)[36]. It is this split that may be producing much of the cost increases for the ratepayers in the acquired LDCs.

It seems clear from the evidence that the bulk of the burden of the rate increases occurring due to harmonization, in terms of both dollar impact and numbers of customers affected, is falling on those acquired LDC customers that have been reclassified to R1 and not to the UR class. Similar patterns are apparent in the General Service classes[37].

Customers are lumped together in a class when their use of the system and services is similar. This is relatively easy to do when classifying customers by demand or consumption, but even here, boundary issues between classes occur at the demarcations. It becomes more problematic when one is classifying customers by

[33] Ex. G1/ Tab 2, Schedule 3/ page 2
[34] Transcript, Volume 5, page 153, line 12 to page 154, line 10
[35] Ex. G1/Tab 4/ Schedule 2/ Page 2, Table 1
[36] Ex. G1/ Tab 2/ Schedule 3/ Page 2, Table 1 and Page 3, table 2.
[37] Ex G2/ Tab 5/ Schedule 5

density, and especially so if there has been no rigorous effort to determine what the appropriate demarcation (density and critical mass) should be.

From the evidence and witness testimony, it does not appear that Hydro One has carefully determined through cost analysis the appropriate criteria for setting the boundary between the R1 and the UR classes and, by extension the analogous general service classes. It is unsettling that, with several years to consider this issue, Hydro One has relied solely on criteria established over a decade ago, for purposes that may well have been largely unrelated to proper cost allocation.

As noted earlier, AMCPO members fall in the ST class and are not directly affected by the R1/UR boundary. However, as a suggestion, the Board may wish to consider directing Hydro One to conduct a study that examines the boundary issue and makes adjustments accordingly. The result of this could be that Hydro One has to stretch out the harmonization period beyond four years, as any increase in the UR population would result in a larger revenue requirement on R1.

Issue 7.2 Is Hydro One's cost allocation appropriate?

Specifically with respect to the ST class, Hydro One appears to have done a careful job of establishing a correct cost allocation (notwithstanding that AMPCO does not support the proposed revenue to cost ratio) and has used detailed, specific cost information to establish the appropriate charge determinants by delivery point for this class, according to the assets serving them[38]. From AMPCO's perspective, this approach is correct and offers a model for other distributors to follow.

As the largest distributor in Ontario, Hydro One logically has the largest volume of data about its assets and costs. For example, while most LDCs may have only a dozen or so distributing stations, Hydro One has over 1,000[39]. Such large volumes of asset and work data necessarily produce narrower uncertainty bands in its estimates than smaller utilities could attain.

[38] Ex. G1/ Tab 4/ Schedule 1/ Page 2, line 6 to page 3, line 2
[39] Ex. C1/ Tab 2/ Schedule 2, page 4, line 5

Moreover, Hydro One has demonstrated repeatedly that it strives to achieve cost and asset information to a greater level of detail than most other LDCs. For example, Hydro One has contracted for specific consultant studies on system losses (Ex a/ Tab 13/ Schedule 3), asset condition assessments (Ex D1/ Tab 2/ Schedule 1), and in past applications, shared services cost allocation (Rudden study) and depreciation.

Hydro One's expertise at careful cost allocation is also evidenced by its ability to design a complex of asset-specific charge determinants for the ST class, all to three figure accuracy[40].

The foregoing suggests that, while Hydro One cannot achieve absolute certainty in its cost and cost allocation estimates, it is better able to do so than the typical Ontario LDC. This in turn means that Hydro One should be able to reliably allocate costs to customer classes within a narrower band than the Board direction requires.

The Board has also noted that LDCs generally are better able to calculate the cost of service for large users due to the use of interval metering and the fact that the size of their demand means better operating and cost data are available[41].

AMPCO has further comments in this regard in the context of Issue 7.4, below**.**

Issue 7.3 Are Hydro One's proposed rates appropriate?

Hydro One's proposed rates will need to be recalculated for several customer classes, based on the decisions of the Board related to rate harmonization, cost allocation, rate design, and the issues relating to total revenue requirement.

Issue 7.4 Are the proposed revenue to cost ratios appropriate?

Hydro One proposes to meet only the extreme high end of the band for ST-class customers (1.15)[42]. AMPCO acknowledges that this is a significant improvement from

[40] Ex. G1/ Tab 4/Schedule 4/ page 2, table 1
[41] Ontario Energy Board, Application of Cost Allocation for Electricity Distributors, Report of the Board, November 28, 2007/ Page 10, Section 3.5
[42] Ex. G1/ Tab 3/ Schedule 1, page 4, table 2

the current ratio of 2.35 that Hydro One has calculated for this customer group[43]. Clearly, Hydro One has made an effort to more correctly align revenue and cost for the ST class.

However, the only class deviations from a revenue/cost ratio of 1 that are greater than for the ST class are for the Hydro One's sentinel light business (0.70), which assets are owned by Hydro One and streetlight service (0.70). Both these deviations represent classes that are being subsidized by other customers.

In cross examination, the Hydro One witness clearly indicated that Hydro one had not assigned revenue to cost ratios for different customer classes with the objective of allocating costs accurately, but rather with a view to meeting the Board guidelines and avoiding impacts on other customer classes[44].

The witness also stated that Hydro One did not have any plan to try to move revenue to cost ratios closer to one in the future, notwithstanding the Board's guidance[45].

On the other hand, Hydro One has not hesitated to set a revenue to cost ratio of 1.0 where it thought it should do so. For example, the distributed generation (DG) customer class had its Revenue/Cost ratio reduced from 1.63 to 1.0, with Hydro One's only rationale being that this was consistent with what it understands to be provincial objectives[46]. Of all the customer groups Hydro One services, this is the one where Hydro One's confidence in its data should be the least, as there are very few if any distributed generation connections actually completed to date[47]. Nonetheless, Hydro One apparently believes it has sufficient data to confidently set this group to 1.0.

It is clear from the evidence, interrogatories and cross examination that Hydro One has compromised proper cost allocation, in order to support perceived provincial priorities, maintain subsidies to service in which it has a direct interest (sentinel lights) and

[43] Ex. G1/ Tab 3/ Schedule 1, page 2, Table 1
[44] Transcript, Volume 4, page 42, line 16 to page 43, line 9
[45] Transcript, Volume 4, page 45, lines 8 to 26
[46] Ex. H/ Tab 11/ Schedule 31
[47] Ex D1/ Tab 3/ Schedule 3/ page 11, lines 22-26

accommodate rate harmonization goals that are a consequence of its previous acquisition strategy.

AMPCO is also aware that the current rate application may be Hydro One's last full cost of service application before 3rd generation IRM comes into effect. Since cost allocation cannot normally be challenged in an IRM rate setting process and since the expected IRM period may be as long as four years, there is the possibility that Hydro One will do nothing to reduce inter-class subsidies prior to 2013. AMPCO submits that this would amount to institutionalization of unjust subsidies.

AMPCO respectfully requests that the Board direct Hydro One to develop a clear plan to bring all its customer rates into a narrow and consistent band of revenue to cost ratios of .95 - 1.05 over the harmonization period and to use this period to gain whatever additional information it requires (if any) to ensure that its cost allocation is accurate. Further, AMPCO submits that it would be acceptable for the Board to direct Hydro One to extend the harmonization period, if this is required to both meet Board guidelines on customer impact and meet revenue/cost objectives.

Issue 7.5 Are the fixed-variable splits for each class appropriate?

Yes. From the evidence, Hydro One has carefully established fixed charges for each class that reflect both fixed costs, such as billing and metering, and also a minimum system.

Unlike many other rate designs, Hydro One has not attempted to inflate fixed charges in order to reduce its exposure to fluctuating customer demand. The result is a rate structure that does not mute the price signal for customers seeking to save through conservation.

Issue 7.6 Is Hydro One's proposal to have both fixed and variable service charges for sub-transmission class customers appropriate?

Under Hydro One's proposal, ST class customers will pay a minimum fixed service charge of $188/mo., plus additional fixed charges for metering ($553/mo) and specific

charges for lines on a distance basis if these assets are used. Variable service charges will apply to shared assets, based on electrical demand[48].

AMPCO submits that this is the correct charging methodology for customers such as the ST Class, that use only a portion of the total distribution system assets and whose asset use can be readily determined by delivery point.

Issue 7.7 Is the proposal for harmonization of rates appropriate?

AMPCO supports Hydro One's effort to reduce the number of rates it must administer and to seek uniform rates for customers with similar cost of service. In addition, the evidence presented supports Hydro One's assertion that it has made a serious and thoughtful proposal to hold the maximum average customer class impacts to 10% of total bill in the first year and lesser amounts in later years.

However, there are some specific issues that AMPCO believes need to be addressed in the decision of the board with specific respect to the harmonization proposal. These are discussed under Issues 6.2, 7.1, and 7.8

Issue 7.8 Are the customer bill impacts resulting from the proposed rate impact mitigation plan reasonable?

Generally, Hydro One has presented a proposal that appears to impose moderate total bill increases on most of the acquired customers, although these are significantly larger for many customers when one looks only at the distribution portion of the bill.

To AMPCO's knowledge, those customers who would qualify as AMPCO members and who will be migrated to the new ST class will not be negatively impacted by Hydro One's proposal. It is noteworthy, though, that a number of customers have written directly to the Board regarding this application, as have some municipalities, with respect to impacts on members of the residential classes. This may actually reflect success on the part of Hydro One at communicating its proposed rates, but the letters

[48] Ex. G1/ Tab 4/ Schedule 4, page 2, Table 1

do demonstrate a level of concern about what are considered to be significant bill increases.

Hydro One has been unable to identify specific numbers of customers facing total bill impacts that may constitute material hardship[49].

It is unclear from the evidence and transcripts whether in fact there are customers other than the Hopper Foundry (discussed below) facing bill increases that are substantial in terms of a combination of dollar and percentage impact.

AMPCO submits that this is an important matter for the Board's consideration. Allowing bill increases large enough to cause significant hardship would have the potential to bring into question not only the ability of Hydro One to serve its customers effectively, but also the ability of the rate setting process to balance the needs of consumers with those of the distributor. This would not be in the interest of any stakeholders, including those such as AMPCO that do not have a direct interest in this particular issue. The Board may wish to seek a specific proposal from Hydro One for mitigation of impacts to customers facing such significant hardship.

Hopper Foundry

AMPCO submits that the Hopper Foundry case is important in several respects. These relate to basic principles of fairness; the impact of Hydro One's proposed treatment on other customers; and the alignment of Hopper Foundry's consumption pattern with government and societal objectives related to demand response and effective use of Ontario's electricity supply resources.

There is also a larger issue, that the impact of the proposed rate change on the Hopper Foundry is so large that, if it were to drive the company out of business, it could result in reduced public confidence in the institutions involved, to the detriment of all stakeholders.

[49] Ex H/ Tab 12/ Schedule 61/ Page 2, lines 16-22

It seems fair to assume that Hydro One was aware of the General Service – Demand rate structure in use in Forest at the time of acquisition. It is difficult to conceive of Hydro One not being aware, on performing due diligence prior to purchase, that Hopper Foundry was operating under a rate designed to incent a load pattern that would permit the LDC to service both the town and Hopper Foundry without an expensive (to both parties) system upgrade.

Unfortunately, Hydro One does not seem to accept that it is the author and owner of this problem and seems unwilling to resolve it without express direction by the Board or by imposing unacceptable upgrade costs on the affected customer.

Hopper Foundry faces a catastrophic bill increase from Hydro One on the order of 3,000 percent[50] that, if it proceeds, is likely to put it out of business[51]. Its predicament is not of its own making, but is the result of Hydro One's actions, primarily Hydro One's acquisition of the Forest PUC.

When Hydro One set Hopper Foundry up on the Interim Time of Use rate, it was obviously aware of the situation. Simply stating to Hopper Foundry that the rate was interim and may end if the OPA declined to fund the rate beyond MARR did not transfer responsibility for the situation to Hopper Foundry, which had little choice but to accept what was offered.

Hydro One has also stated that, for an interregnum between market opening in May of 2002 and the introduction of the interim Time of Use rate in 2004, Hopper Foundry would have been charged the regular General Service Demand rate in place at the time. However, this rate was estimated by Hydro One at about $2/kW[52], a fraction of the Hydro One rate of $8.50 now being proposed[53].

[50] Transcript, Volume 6, page 36, lines 14-19
[51] Transcript, Volume 6, page39, lines 4-10
[52] Transcript, Volume 6, page 41, line 15
[53] Ex G2/Tab 36/Schedule 1/page 3

Technically, the distribution facilities in Forest cannot supply Hopper Foundry if it moves its peak to daytime hours. Hydro One understands this[54]. Hydro One appears to have assumed that Hopper Foundry would continue to melt at night in order to save on the electricity commodity cost. Hydro one has estimated that Hopper Foundry's commodity cost of electricity would double if it did move to a daytime melt[55]. However, Mr. Vickers, who gave evidence on behalf of the Hopper Foundry has stated that the labour savings in moving to a daytime melt would significantly outweigh the extra commodity cost[56].

To have a chance of survival under Hydro One's proposal, Hopper Foundry would rationally move to a daytime melting operation, allowing it to reduce labour cost as partial mitigation of the Hydro One rate increase. If it does this, Hydro One will need to undertake a significant system improvement project, to continue to serve both the town and the foundry. This improvement would take the form of a voltage conversion to 27.6/16.0kV, which is the higher distribution voltage Hydro One uses in the area[57].

Assuming this happens; Hopper Foundry's demand characteristic will result in it being reclassified as an ST-class customer, according to Hydro One's criteria. This would further reduce the foundry's Hydro One bill, perhaps allowing the business to remain viable.

Logically, the best alternative would be to continue some form of the existing arrangement, to everyone's benefit. As a suggestion, a reasonable accommodation might follow one of these options:

a) The Board could direct Hydro One to make a specific exception for Hopper Foundry with regard to its delivery voltage criteria and designate Hopper Foundry as an ST-class customer. This is in fact what Hopper Foundry would become if it were a new customer, requesting service. In all respects except supply voltage, Hopper Foundry would normally be classified as an ST

[54] Transcript, Volume 6, page 41, line 25 to page 42, line 17
[55] Transcript, Volume 6, page 48, lines1-9
[56] Transcript, Volume 6, page61, lines 11-18
[57] ibid

customer. Since there is no evidence that Hopper Foundry was involved in the selection of its supply voltage, Hydro One's approach seems at best to be overly rigid. By Hydro One's own criteria, an embedded distributor receiving service similar to Hopper Foundry's would be classified as ST-class[58]. As a condition for this exception, Hopper Foundry would be required to maintain the night time melt schedule unless and until the supply voltage were raised. The beneficial effect of having the foundry melt at night would continue, to the benefit of all ratepayers.

b) Alternatively, the Board could direct that Hydro One provide Hopper Foundry with a specific incentive (rate rider) that recognizes the avoided cost to Hydro One if Hopper Foundry continues to melt at night. Such a rider would only be available under a combination of circumstances that recognizes the proper avoided cost, the uniqueness of the situation and includes a reciprocal commitment from Hopper Foundry to retain its current operational schedule. Such an arrangement would allow Hydro One to continue to serve Forest as it has and proceed with rate harmonization. The beneficial effect of having the foundry melt at night would continue, to the benefit of all ratepayers.

c) As a further alternative, the Board could direct Hydro One to maintain Hopper Foundry on the current Time of Use rate until it can reliably provide service that allows Hopper Foundry to operate as it sees fit. Moreover, any changes required by Hydro One to provide such service should not be at Hopper Foundry's expense, except to the extent that Hopper Foundry should compensate Hydro One for any increase in its (Hopper Foundry's) asset value that may result (for example, if Hopper Foundry's service transformer required replacement with a new, more valuable unit, the increased value to the foundry should be covered by capital contribution). It may well be that Hydro One can make changes to its system that do not require Hopper Foundry to change its equipment inside the property line, by undertaking a

[58] Ex. G1/ Tab 2/ Schedule 3/ Page 8, lines 8-9

voltage conversion for part of the town but not Hopper, or by means of load transfers. The beneficial effect of the foundry's demand pattern would be lost and Hydro One would need to increase its rate base with no increase in sales.

8. Smart Meters

Issue 8.2 Is the proposed 2008 capital spending for the smart metering program appropriate?

In its submission, Board staff specifically asked other parties to comment on the costs for smart metering features that "exceed minimum functionality" (CAMF).

The issue is difficult, because Hydro One has been unable to identify when the CAMF investment will become used and useful. Moreover, the budget for above minimum functionality is substantial, at $12.5M in 2007 and $28.3M in 2008[59]. Most of this appears to be related to enhancements to Hydro One's current customer information system, in order to accommodate TOU billing when it arrives.

For the portion of the CAMF budget attributable to super capacitors in meters and backup batteries in communication modules, AMPCO is prepared to accept that this is a prudent investment that Hydro One cannot realistically make after the smart meters are all installed. For perspective, many capital investments such as lines and transformers are built with capacity that does not become useful until years after the assets are commissioned and booked.

AMPCO is concerned that Hydro One does not seem to have specifically identified when these features will become used and useful, or what the specific benefits to customers will be. AMPCO submits that the Board should direct Hydro One to identify the benefits to consumers in terms of such matters as reliability (outage response), but also in terms of what cost savings the company expects to gain from this investment. As these future cost savings will be enabled by investments approved prior to the implementation of 3rd generation IRM, they should properly be accounted for in advance.

With respect to CAMF investments in Hydro One's customer system to enable TOU billing, these should not be approved for inclusion into rate base until they are a)

[59] Ex. D1/ Tab 3/ Schedule , page 27,line 18 to page 28, line 2

complete and b) needed. IT investments depreciate faster than physical assets and also require maintenance once built, whether or not they are used. Moreover, system investments made prior to approval of TOU specifications run the risk of becoming partially or totally stranded.

Summary of AMPCO Recommendations

1) The Board should accept VECC's submission that Hydro One should adjust its load forecast based on a provincial demand reduction of 800MW and not the 1,000MW used by Hydro One in its calculations. AMPCO also supports VECC's submission that Hydro One should adjust for 2008 CDM on the basis of the 0.8TWhr provincial forecast of the OPA

2) AMPCO supports the recommendation of the CME that the Board limit Hydro One's 2008 OM&A budget to no more than $423M.

3) The Board should direct Hydro One to manage its forestry program within the OM&A envelope as recommended in (2) above and seek increased accomplishment (shorter cycles) through process and productivity improvement.

4) The Board should not direct Hydro One to undertake significant and additional CDM programs, except as they are funded by the OPA.

5) The Board should direct Hydro One to adjust its Shared Services capital budgets to reflect the changes in approved levels of its OM&A work programs.

6) The Bill Mitigation Variance Account may be approved, but Hydro One should collect the revenue shortfall only from those customer groups benefiting from the account.

7) The Board should deny Hydro One's request for a Pension Cost Differential Account.

8) The Board should deny Hydro One's request for an OEB Cost Differential account.

9) The Board should not direct Hydro One to implement an LRAM at this time.

10) The Board should consider giving Hydro One direction to examine more carefully the density boundary criteria between R1 and UR customer groups, to better base these criteria on sound cost allocation principles. Should the study conclude that a significantly greater number of customers will be classified as urban (or some intermediate classification between the two), the Board may need to direct Hydro One to propose a harmonization period of longer than four years.

11) To the extent the Board's decision is at variance with Hydro One's proposals, the Board should direct Hydro One to adjust its rates accordingly.

12) The Board should direct Hydro One to develop and propose a plan to improve its cost allocation data where necessary in order to support bringing the Revenue/Cost ratios for all customer classes more closely to 1.0, with a suggested tolerance band of .95-1.05 by the end of the harmonization period. Hydro One should be allowed to extend the harmonization period, if this is what it feels will be necessary to both achieve greater fairness in cost allocation and hold customer bill impacts to acceptable levels.

13) AMPCO recommends that, notwithstanding AMCPO's recommendation on revenue/cost ratios, the Board accept Hydro One's proposed rate design and classification criteria for the ST customer class.

14) The Board should direct Hydro One to find some reasonable way to avoid imposing a rate shock on Hoper Foundry that could put it out of business. The Board should direct Hydro One to continue serving Hydro One under the current TOU arrangement until a solution has been implemented.

15) The portion of the smart metering capital budget that is for above minimum functionality and consists of ultra capacitors in the meters, as well as batteries or ultra capacitors in communications modules, be allowed for inclusion in rate base as the equipment is installed.

16) The portion of the smart metering capital budget that is both above minimum functionality and for the enhancement of Hydro One's customer billing system to accommodate TOU rates, when they are implemented, should not be allowed into rate base until this functionality is used and useful.

Costs

By letter dated January 29, 2008, the Board confirmed its determination that AMPCO is eligible to apply for an award of costs under the Board's Practice Direction on Cost Awards.

As all parties are aware, this proceeding is of great importance to electricity distribution customers across Ontario, including members of AMPCO who are among the province's largest electricity consumers. The Board's Decision in this proceeding will affect not only distribution rates for the 2008 rate year, but also for 2009, 2010 and 2011 in the context of 3rd Generation IRM.

AMPCO submits that it has participated responsibly in this proceeding through its consultant and counsel, and has limited its involvement to matters that are relevant to it and to the issues identified by the Board. AMPCO cooperated with other parties of like interests where appropriate in order to reduce the duplication of evidence and questions on cross-examination, and has complied with the directions of the Board throughout the proceeding.

AMPCO respectfully requests that it be permitted to recover 100% of its costs reasonably incurred in this proceeding in accordance with the Board's Practice Direction on Cost Awards.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 18TH DAY OF AUGUST, 2008

Original signed by James C. Sidlofsky
James C. Sidlofsky
Counsel to the Association of Major Power Consumers in Ontario

::ODMA\PCDOCS\TOR01\3878661\3