ETS Stakeholder Session

Presentation of the Export Transmission Tariff Cost Allocation Model

March 24, 2014

Agenda

9:10 p.m.	**Registration**	
9:30 a.m.	Welcome	Allan Cowan, Director Major Applications, Hydro One Networks
9:35 a.m.	Introductions and Agenda	Bob Betts, Facilitator, OPTIMUS|SBR
9:45 a.m.	Presentation of the Export Transmission Tariff Cost Allocation Model	Mike Roger, Elenchus
10:45 a.m.	Questions and Facilitated Discussion	Allan Cowan, Director Major Applications, Hydro One Networks Mike Roger, Elenchus Bob Betts, Facilitator, OPTIMUS|SBR
11:50 a.m.	Closing Remarks	Allan Cowan, Director Major Applications, Hydro One Networks
12:00 p.m.	**Adjourn**	

Facilitator’s Remarks

- Introductions Facilitator, Bob Betts & OPTIMUS | SBR support team
- Meeting Facilities
- Safety Review
- Note taking process
- Participant Introductions

Meeting Process

- Mobile phones “Off” or “Silenced”
- Avoid side discussions while others speaking
- All questions are good ones
- All comments are appreciated
- Materials and notes will be posted on Hydro One’s Regulatory Website:

www.HydroOne.com/RegulatoryAffairs

Export Transmission Tariff
Cost Allocation Model
Stakeholder Presentation

March 24, 2014

Michael Roger

elenchus

Agenda

- ETS Rate Background
- Cost Allocation Methodology
- Description of Data Used
- Assumptions and Methodology
- Results
- Scenarios
- Recommended Methodology
- Next Steps

ETS Rate Background

RP-1999-0044

$1/MWh

- **reasonable compromise**
- **interim**

EB-2006-0501

maintained rate

- **Stakeholder settlement**
- **IESO responsible entity to undertake study**
- **IESO study filed August 28, 2009**

ETS Rate Background (cont.)

EB-2010-0002

rate set as $2/MWh

- Reviewed IESO study
- Additional study required

EB-2012-0031

maintained rate

- Reviewed IESO study
- Hydro One to conduct cost allocation study to establish ETS rate

Cost Allocation Methodology

Apportionment of assets and expenses

Historical or test year data:

- Financial
- Sales

Three Steps:

- Functionalization
- Classification
- Allocation

Description of Data Used

Load Data (IESO)

- **Domestic**
- **Export**

Rate Base (Hydro One 2013)

Revenue Requirement (Hydro One 2013)

Assumptions and Methodology

Simple CA model based on cost causality

Two customer groups

- **Domestic**
- **Export**

Assets identified by Hydro One as:

- **Dedicated to Domestic customers**
- **Dedicated to Interconnected customers**
- **Shared**

Assumptions and Methodology (cont.)

Shared Asset Functions Considered:

- Network
- Network Dual Function
- Generation Line Connection
- Generation Transformation Connection
- Common
- Other

Miscellaneous Revenue

Assumptions and Methodology (cont.)

Allocation of Net Shared Assets between Domestic and Exports

12 CP and 1 CP are each run to determine sensitivity to allocator selected

	Domestic	Export
12 CP Demand Allocator	89.94%	10.06%
1 CP Demand Allocator	91.87%	8.13%

Assumptions and Methodology (cont.)

Allocation of Net Shared Expenses

OM&A is allocated on the basis of Net Assets

	Domestic	Export
Net Assets 12 CP	93.28%	6.72%
Net Assets 1 CP	94.50%	5.50%

Assumptions and Methodology (cont.)

Allocation of Net Shared Expenses

Amortization and Financing expenses are allocated on the basis of Net Assets for the fully loaded scenarios between domestic and export, and only to domestic in the interruptible scenarios.

Results

Base Case

- Exports as interruptible loads, allocated only OM&A costs, and fixed assets dedicated to Interconnected as identified by Hydro One ($5.04M) with no Miscellaneous Revenue credit

- Dedicated Assets $5.04 M
- Shared Assets <u>$15.36 M</u>
- Total Rev. Req. $20.4 M

- Using 2013 Forecast Export volumes:

  12 CP $1.32/MWh

  (using actual 2012 export volumes $1.40/MWh)

Results (cont.)

Escalate Allocated HONI Revenue Requirement for Exports to include other transmitters (2014 UTR, 3.4%)

- **HONI $882.9 M**
- **Total Network $912.8 M**

ETS Increased by 3.4% $1.36/MWh

Scenarios

	Description (Base case $1.32/MWh)	ETS Rate $/MWh
Scenario 1	Same as Base case, but using 12 CP average of 3 years	1.37
Scenario 2	Same as Base case, but using 1 CP (2012)	1.14
Scenario 3	Same as Base case, but using 1 CP average of 3 years	1.22
Scenario 4	Same as Base case, but allocating $0.05M Miscellaneous Revenue credit to export	1.31
Scenario 5	Allocating only shared OM&A costs to Exports, no dedicated assets to export	1.07

Scenarios (cont.)

	Description (Base case $1.32/MWh)	ETS Rate $/MWh
Scenario 6	Allocating to Exports same costs as Networks, $0.887M Miscellaneous revenue credit, using 12 CP 2012	4.17

Recommended Methodology

Elenchus Recommendation for cost-based ETS rate methodology:

- **Export as interruptible load**
- **2013 actual domestic and export hourly data**
- **12 CP to allocate shared OM&A**
- **Only Export dedicated assets**
- **No Miscellaneous revenues**
- **2015 and 2016 HONI Proposed Assets and Revenue Requirement**
- **Mark-up to account for other transmitters**

Next Steps

- **2013 actual sales data replacing 2012 data for determining CP allocator values**
- **Re-run model with 2015, 2016 data when available**
- **Prepare evidence**