ETS Stakeholder Session

Presentation of the Export Transmission Tariff Cost Allocation Model

March 24, 2014
## Agenda

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
<th>Presenter(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>9:10 p.m.</td>
<td>Registration</td>
<td></td>
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<tr>
<td>9:30 a.m.</td>
<td>Welcome</td>
<td>Allan Cowan, Director Major Applications, Hydro One Networks</td>
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<tr>
<td>9:35 a.m.</td>
<td>Introductions and Agenda</td>
<td>Bob Betts, Facilitator, OPTIMUS</td>
</tr>
<tr>
<td>9:45 a.m.</td>
<td>Presentation of the Export Transmission Tariff Cost Allocation Model</td>
<td>Mike Roger, Elenchus</td>
</tr>
<tr>
<td>10:45 a.m.</td>
<td>Questions and Facilitated Discussion</td>
<td>Allan Cowan, Director Major Applications, Hydro One Networks, Mike Roger, Elenchus, Bob Betts, Facilitator, OPTIMUS</td>
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<tr>
<td>11:50 a.m.</td>
<td>Closing Remarks</td>
<td>Allan Cowan, Director Major Applications, Hydro One Networks</td>
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<tr>
<td>12:00 p.m.</td>
<td>Adjourn</td>
<td></td>
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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
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
ETE 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

<table>
<thead>
<tr>
<th>Allocator</th>
<th>Domestic</th>
<th>Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 CP Demand Allocator</td>
<td>89.94%</td>
<td>10.06%</td>
</tr>
<tr>
<td>1 CP Demand Allocator</td>
<td>91.87%</td>
<td>8.13%</td>
</tr>
</tbody>
</table>
Assumptions and Methodology (cont.)

Allocation of Net Shared Expenses

OM&A is allocated on the basis of Net Assets

<table>
<thead>
<tr>
<th></th>
<th>Domestic</th>
<th>Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Assets 12 CP</td>
<td>93.28%</td>
<td>6.72%</td>
</tr>
<tr>
<td>Net Assets 1 CP</td>
<td>94.50%</td>
<td>5.50%</td>
</tr>
</tbody>
</table>
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 $15.36 M
– 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

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Description (Base case $1.32/MWh)</th>
<th>ETS Rate $/MWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario 1</td>
<td>Same as Base case, but using 12 CP average of 3 years</td>
<td>1.37</td>
</tr>
<tr>
<td>Scenario 2</td>
<td>Same as Base case, but using 1 CP (2012)</td>
<td>1.14</td>
</tr>
<tr>
<td>Scenario 3</td>
<td>Same as Base case, but using 1 CP average of 3 years</td>
<td>1.22</td>
</tr>
<tr>
<td>Scenario 4</td>
<td>Same as Base case, but allocating $0.05M Miscellaneous Revenue credit to export</td>
<td>1.31</td>
</tr>
<tr>
<td>Scenario 5</td>
<td>Allocating only shared OM&amp;A costs to Exports, no dedicated assets to export</td>
<td>1.07</td>
</tr>
</tbody>
</table>
## Scenarios (cont.)

<table>
<thead>
<tr>
<th>Scenario 6</th>
<th>Description (Base case $1.32/MWh)</th>
<th>ETS Rate $/MWh</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Allocating to Exports same costs as Networks, $0.887M Miscellaneous revenue credit, using 12 CP 2012</td>
<td>4.17</td>
</tr>
</tbody>
</table>
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