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**BY E-MAIL**

February 1, 2019

Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge Street, 27th Floor  
Toronto, ON M4P 1E4  
[BoardSec@oeb.ca](mailto:BoardSec@oeb.ca)

Dear Ms. Walli:

**Re: OEB Staff Submission  
Wataynikaneyap Power GP Inc. on behalf of Wataynikaneyap Power LP  
Application for leave to construct transmission lines and associated  
facilities in northwestern Ontario  
Ontario Energy Board File Number EB-2018-0190**

In accordance with Procedural Order No. 2, please find attached the OEB staff submission in the above proceeding. This document is being forwarded to the applicant and to all other registered parties to this proceeding.

Yours truly,

*Original signed by*

Ritchie Murray  
Project Advisor

Cc (by email): all parties to the proceeding

## Introduction and Background

On June 8, 2018, Wataynikaneyap Power GP Inc. on behalf of Wataynikaneyap Power LP (WPLP) applied to the Ontario Energy Board (OEB) under section 92 of the *Ontario Energy Board Act, 1998* (OEB Act) for leave to construct a total of approximately 1,724 km of electricity transmission lines and associated facilities in northwestern Ontario (Project).

WPLP is a partnership between 24 First Nations and Fortis Inc. The Participating First Nations indirectly hold a 51% interest in WPLP and Fortis Inc. indirectly holds the remaining 49% interest.<sup>1</sup> The transmission lines will connect 16 of the 24 remote First Nation communities (and permit the potential future connection of an additional community).

In its application, WPLP explains that the participating First Nations have formed a partnership on the basis of their shared interest in developing, owning and operating transmission facilities to connect remote First Nation communities – currently powered by diesel generation – to the provincial electricity grid, so as to provide reliable and accessible power to residents, community infrastructure and businesses. WPLP states that these communities have been historically disadvantaged by the the existing diesel generation that has caused very significant economic and quality of life impacts. The inability to connect new housing or to support essential infrastructure leads to overcrowding and poor living conditions, impacts on potable water supplies, sewage treatment and heating.

WPLP also asks for approval under section 78(1) of the OEB Act of a unique cost recovery framework under which:

- The revenue requirement for the Remote Connection Lines north of Red Lake and Pickle Lake would be charged through a service rate to Hydro One Remote Communities (HORCI)
- The revenue requirement for the network facilities would be recovered through the Uniform Transmission Rate (UTR)

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<sup>1</sup> WPLP's original application stated there were 22 participating First Nations. On January 28, 2019, WPLP filed an update to its application that, among other things, advised the OEB that Mishkeegogamang and Ojibway Nation of Saugeen have joined the WPLP partnership structure. This brings the total number of First Nations communities who are equal owners in the Project to 24. The update also advised that Algonquin Power & Utilities Corp. had acquired a minority stake in Fortis's ownership of WPLP.

In addition, the application also requests the following:

- Approval, pursuant to section 97 of the OEB Act, of the forms of land agreements that it has offered or will offer to landowners directly affected by the proposed transmission facilities
- An order, pursuant to section 101 of the OEB Act, granting authority to construct portions of the proposed transmission facilities upon, under or over a highway, utility line or ditch
- A determination, pursuant to subsection 84(b) of the OEB Act, that the 44 kV and 25 kV segments of the proposed facilities are part of the applicant's transmission system notwithstanding that the voltages of these segments will be less than 50 kV
- A determination, pursuant to section 13.1 and Schedule 1 of the applicant's electricity transmission licence, that the proposed transmission facilities are in accordance with the scope recommended or supported, as applicable, by the Independent Electricity System Operator (IESO)
- An order, pursuant to section 74 of the OEB Act, amending the applicant's electricity transmission licence to reflect the OEB's determination under section 84(b), to update Schedule 1 to reflect the proposed transmission facilities and to approve certain exemptions from the Transmission System Code (TSC)
- An amendment to the applicant's electricity transmission licence to replace the name of its general partner from 2472883 Ontario Limited to Wataynikaneyap Power GP Inc.

## **Process to Date**

WPLP filed its original application on June 8, 2018. WPLP requested a written hearing and a decision in early Q1, 2019.

The OEB issued a Notice of Hearing on September 14, 2018. The IESO and HORCI applied for intervenor status. No one requested an oral hearing. No objection to the requests for intervenor status was received from WPLP.

WPLP filed an updated application on October 5, 2018, to reflect certain minor refinements to the transmission line routing and facility locations that were contemplated in the initial application, along with other minor changes to reflect development activities carried out during the four months since initial filing.

In accordance with Procedural Order 1, which was issued on October 19, 2018, an untranscribed Presentation Day was held on November 2, 2018, and the first round of interrogatories was completed on December 3, 2018.

In accordance with Procedural Order 2, which was issued on October 19, 2018, a supplemental round of interrogatories was completed on January 21, 2019. OEB staff and intervenor submissions are due on February 1, 2019. WPLP's reply submission is due on February 15, 2019.

On January 28, 2019, WPLP filed another update to its application to reflect minor amendments to its transmission line routing and to provide information about the recent addition of two new First Nations to the WPLP partnership structure.

### **Summary of OEB Staff Position**

OEB staff addresses each of WPLP's requests in this submission. However, in OEB staff's view, there are three issues that require more discussion than the others: backup power, TSC exemptions, and the cost recovery framework. A brief summary of OEB staff's position on these issues is below.

The Province of Ontario has declared that the Project is a "priority project" and designated WPLP as the entity to build it, OEB staff submits that the Project is in the public interest and that leave to construct should be granted. OEB staff has concerns about the timing and adequacy of the backup power supply for connecting communities. OEB staff proposes a condition of approval that requires semi-annual reporting by WPLP to the OEB on the progress of backup supply arrangements.

With respect to WPLP's proposed temporary exemptions from the TSC, OEB staff does not object except to suggest that the exemptions be limited to the Remote Connection Lines north of Red Lake and Pickle Lake, and not apply to the line to Pickle Lake. The rationale for the exemptions provided by WPLP does not extend to the line to Pickle Lake.

OEB staff supports the structure of the revenue requirement proposed by WPLP that will form the basis of the subsequent transmission rate application subject to the OEB retaining the ability to review and finalize those elements and any other matters that may be relevant to the company's inaugural rate case. OEB staff takes this position notwithstanding its view that the OEB's approval of the TSC exemptions, together with the July 1, 2016 amendments to O. Reg. 442/01 (Rural or Remote Electricity Rate Protection), effectively provide WPLP with the cost recovery framework that it seeks in

this application. However, it appears from the record of this proceeding that WPLP is also seeking an approval in principle of how the revenue requirement is to be structured in order to support its financing efforts. On this basis, OEB staff has no objections to the structure proposed in principle.

## Statutory Criteria for Assessing Section 92 Applications

Section 92 of the OEB Act requires leave of the OEB for the construction, expansion or reinforcement of electricity transmission lines. In considering whether to grant leave, the OEB is restricted to the criteria set out in section 96(2) of the OEB Act:

In an application under section 92, the OEB shall only consider the following when, under subsection (1), it considers whether the construction, expansion or reinforcement of the electricity transmission line or electricity distribution line, or the making of the interconnection, is in the public interest:

1. The interests of consumers with respect to prices and the reliability and quality of electricity service.
2. Where applicable and in a manner consistent with the policies of the Government of Ontario, the promotion of the use of renewable energy sources.

OEB staff's submission in respect of the leave to construct application focusses on price, reliability, quality of electricity service. The promotion of renewable energy sources is not relevant in the context of this application.

## Project Need

Through an Order-in-Council issued by the Lieutenant Governor in Council on July 20, 2016, the Province of Ontario declared that the Project is a "priority project" pursuant to Section 96.1 of the OEB Act. As such, the OEB is required to accept that the construction of the proposed transmission facilities is needed.<sup>2</sup>

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<sup>2</sup> Section 96.1(2) of the OEB Act provides that, "When it considers an application under section 92 in respect of the construction, expansion or reinforcement of an electricity transmission line specified in an order under subsection (1), the Board shall accept that the construction, expansion or reinforcement is needed when forming its opinion under section 96."

In response to a Ministerial Directive issued pursuant to Section 28.6.1 of the OEB Act, the OEB amended WPLP's transmission licence on September 1, 2016, to include a requirement that WPLP develop and seek approvals for the facilities.

## Price

### Costs and Alternatives

OEB staff submits that WPLP has taken reasonable steps to find cost efficiency measures in the design of the Project.

A summary of the Project costs is provided in Table 1.

**Table 1: Summary of Project Costs (\$000)<sup>3</sup>**

Transmission Line Facilities - Line to Pickle Lake	\$	219,210
Transmission Line Facilities - Remote Connection Lines	\$	653,868
Station Facilities - Line to Pickle Lake	\$	32,091
Station Facilities - Remote Connection Lines	\$	165,575
Engineering, Design, Project/Construction Management & Procurement	\$	90,357
Environmental Assessments, Routing, Permitting, Regulatory & Legal	\$	22,507
Land Rights	\$	23,190
Aboriginal Engagement, Stakeholder Consultation, Participation and Training	\$	52,313
Contingency	\$	252,400
<b>Costs before AFUDC</b>	<b>\$</b>	<b>1,511,511</b>
Capitalized Interest	\$	137,120
<b>Total Project Costs</b>	<b>\$</b>	<b>1,648,631</b>

WPLP has made a variety of efforts to reduce the costs of the proposed transmission facilities. Examples include:<sup>4</sup>

- Supplying two communities at the same voltage from a single transformer (Wapekeka-Kitchenuhmaykoosib Inninuwug Transformer Station (TS))

<sup>3</sup> EB-2018-0190 Exhibit C-8-1, Page 1, Table 1

<sup>4</sup> EB-2018-0190, Exhibit C-8-1

- Supplying the Wunnumin Lake and Kasabonika Lake communities at 44kV instead of 115kV via Kingfisher Lake TS and Wawakapewin TS
- Engaging POWER Engineers (a consulting firm) to define optimal structure family and conductor size used in the design of the line to Pickle Lake
- Standardizing transformer ratings to two sizes and using standardized transformer and switching station configurations to the extent possible
- Using common circuit breakers to provide switching and protection for 115 kV lines, as well as protection for adjacent and/or downstream 115 kV transformation, reducing the overall number of 115 kV breakers required
- Engaging BBA (a consulting firm) to design, analyze and optimize the configuration of substations and reactive power compensation, with input from the IESO
- Siting transformers with regard to, among other things, cost-effective access for regular operations, inspections and maintenance

WPLP has further considered routing alternatives and refinements within the parameters established by the Order-in-Council, the terms of WPLP's transmission licence, as well as by the IESO's recommended or supported scope. WPLP submits that it has "carried out a comprehensive process to identify and assess potential routing and designs, consult and engage with affected parties, select a preferred route and design, and refine the route and design based on further assessment, consultation and engagement, the result of which has been the selection of proposed transmission corridors consistent with the requirements under the OIC [Order-in-Council], licence conditions, and IESO Scope Report".<sup>5</sup>

OEB staff notes that WPLP's cost estimates were developed in consideration of transmission and distribution cost information provided by Fortis Ontario, three Fortis subsidiaries (Fortis BC, ITC Transmission, and Newfoundland Power) and others. OEB staff further notes that differences in estimated line segment costs per km across the project reflect expected factors such as voltage level, distance from established road infrastructure (and type of roads), proximity to airstrips, proximity of aggregate resources, known environmental constraints, expected numbers of water crossings, expected ground / soil condition and more.

Final engineering, procurement, construction and commissioning of the project will be completed through an Engineering, Procurement and Construction (EPC) contract,

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<sup>5</sup> EB-2018-0190, Exhibit D-3-1, page 5

which will be competitively tendered. In the meantime, WPLP has retained an Owner's Engineer (a consulting firm) to provide increased granularity and targeted accuracy of the cost estimate in preparation for the EPC tendering, evaluation and selection process.

The estimated project cost now includes approximately \$252.4 million in contingency, or 20% of the current pre-contingency project cost estimate. OEB staff notes that the contingency cost estimate is greater than the total cost of the line to Pickle Lake itself (\$251.3 million, including transmission line facilities and station facilities). While 20% is higher than what WPLP considers to be typical at this stage of a project (5-15%), WPLP submits that a 20% contingency is reasonable at this point in light of the remoteness of the project and other relevant considerations and risks "[...] that will be incorporated into EPC proposals".<sup>6</sup>

WPLP states that the contingency estimate represents a quantification of the risk which will become part of the known costs of the Project through the maturation of the project development and execution. OEB staff notes that the Owner's Engineer's mandate "will include a requirement to refine the contingency estimate".<sup>7</sup>

OEB staff recommends that the OEB require WPLP to file details of the updated costs of the Project as part of its first rate application including a variance analysis of project cost, schedule and scope compared to the original estimates, and the extent to which the project contingency was utilized.

On balance, OEB staff is satisfied with the routing alternatives WPLP has identified and assessed, and its reasons for selecting its preferred option.

OEB staff is also encouraged that WPLP's cost estimates reflect the input and experience of its partners and others, and that the estimates are based on a well-defined project scope, substantially completed routing, completion of conceptual substation configuration design and equipment ratings, and completion of preliminary plan and profile drawings.

## Other Costs

Approval of this application will trigger some costs that are necessary to implement the project, but that are not included in WPLP's estimated project cost. Most of these cost

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<sup>6</sup> D-Staff-25

<sup>7</sup> EB-2018-0190, Exhibit D-3-1, page 4

items are not directly within the control of WPLP.<sup>8</sup> Examples include bringing applicable communities to Electrical Safety Authority (ESA) standards,<sup>9</sup> securing backup generation,<sup>10</sup> and transitioning Independent Power Authorities (IPAs) to being served by HORCI<sup>11</sup>. Other costs are within the control of WPLP, but are not yet included in WPLP's estimated project cost. These include establishing a control room from which operators will remotely monitor the configuration and status of WPLP's transmission system.<sup>12</sup> WPLP has indicated that cost estimates for these items are unknown at this time.

OEB staff also notes that approval of certain station and other facilities which will need to be constructed by HONI in connection with the Project has not been requested as part of WPLP's application.<sup>13</sup>

OEB staff makes these observations to highlight the fact that the OEB does not have information about the entire scope of costs associated with the Project, including some costs that may be recovered from HONI's ratepayers in due course. Nevertheless, OEB staff appreciates that the circumstances of this Project – which involves the interaction of several different players to ultimately put the Project (which WPLP is required as a condition of its transmission licence to develop) in service – makes it difficult to get a holistic view of costs. In OEB staff's view, WPLP must provide a detailed breakdown of all costs that are within WPLP's ability to control when they file their inaugural rate case. It may also be of assistance to the OEB if WPLP makes best efforts to provide information on any other costs that impact this project at the time of the rate case.

## Funding from the Government of Canada

On March 12, 2018, WPLP entered into a Memorandum of Understanding (Funding MOU) with the governments of Canada and Ontario. On March 22, 2018, the governments of Canada and Ontario announced \$1.6 billion in federal funding for the WPLP project. The funding is conditional on appropriation of the funding by Parliament

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<sup>8</sup> EB-2018-0190 Exhibit C-8-1

<sup>9</sup> E.g. C-Staff-13

<sup>10</sup> E.g. HORCI-5, C-Staff-16

<sup>11</sup> E.g. C-Staff-13

<sup>12</sup> E.g. E-Staff-30

<sup>13</sup> In Staff-2, OEB staff asked WPLP to explain how its application is consistent with the OEB's December 16, 2014 Decision on Threshold Questions in the Supply to Essex County Transmission Reinforcement Project (EB-2013-0421), which found that transformer stations require leave to construct if they are associated with a transmission line longer than 2 km. OEB staff is satisfied with WPLP's response. In OEB staff's view it is appropriate that WPLP's application does not seek approval for facilities that WPLP does not itself intend to build. OEB staff notes that WPLP's application did include some cost estimates for the HONI facilities in its own cost estimates to show the bill impacts: see e.g. C-Staff-67.

as well as finalization of definitive documents. Further, the funding would be provided in two tranches:

- \$770 million (less funding provided for Pikangikum<sup>14</sup>) following connection of eight remote communities
- \$785 million following project completion

The Government of Canada would fund the project in part as a capital contribution to WPLP with the remainder placed in an independent trust (Trust) to offset the increase in Rural or Remote Electricity Rate Protection (RRRP) as a result of a transmission rate that WPLP proposes to charge to HORCI. OEB staff notes that O. Reg. 442/01 (Rural or Remote Electricity Rate Protection) was amended effective July 1, 2016 “to allow RRRP to be used to cover a portion of the costs required to build and operate the lines that would connect remote First Nations communities to the transmission grid.”<sup>15</sup> Section 4(2.1) of the amended O. Reg. 442/01 sets out that HORCI’s revenue requirement shall include amounts approved by the OEB relating to WPLP. Section 4 of O. Reg. 442/01, as amended, is provided below:

**4.** (1) This section and section 5 apply to rate protection for consumers in a remote area referred to in subsection 79 (2) of the Act and consumers referred to in paragraphs 3 to 5 of section 2 of this Regulation.

(1.1) Revoked: O. Reg. 192/17, s. 2 (1).

(2) For each year, the Board shall calculate the amount by which Hydro One Remote Communities Inc.’s forecasted revenue requirement for the year, as approved by the Board, exceeds Hydro One Remote Communities Inc.’s forecasted consumer revenues for the year, as approved by the Board.

(2.1) For the purposes of subsection (2), Hydro One Remote Communities Inc.’s forecasted revenue requirement shall include, in addition to such other amounts as approved by the Board, any amounts approved by the Board relating to the following:

1. A new transmission system that originates between Dryden and Ignace and terminates at Pickle Lake.

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<sup>14</sup> \$60.2 million per Indigenous and Northern Affairs Canada News Release on August 17, 2017 available at [https://www.canada.ca/en/indigenous-northern-affairs/news/2017/08/the\\_government\\_ofcanadainvestsinbringingcleansafeandreliableelec.html](https://www.canada.ca/en/indigenous-northern-affairs/news/2017/08/the_government_ofcanadainvestsinbringingcleansafeandreliableelec.html).

<sup>15</sup> Environmental Registry, February 10, 2016

2. A transmission system from the point of connection at the IESO-controlled grid to points of connection to the distribution system that services each remote community listed in Schedule 2.
3. A distribution system that serves a remote community listed in Schedule 2, if necessary to connect the community to a transmission system.
4. Upgrades to the existing transmission system between Dryden and Red Lake, if necessary to connect a distribution system that serves a remote community listed in Schedule 2 to the transmission system.

The extent of funds released to WPLP and the Trust will be determined in accordance with the Funding MOU and related definitive documentation. An independent Trustee will be established pursuant to a Trust Agreement. As noted in response to interrogatory J-Staff-48, it is WPLP's understanding that the recipient of funds from the Trust will be the IESO. In response to J-Staff-48, WPLP stated that finalization of the definitive documents was expected in December 2018, however more recently in response to J-Staff-70, WPLP stated that finalization was expected in Q1 2019. And further in response to J-Staff-74, WPLP states "it has been acknowledged by Ontario that regulatory amendments may help clarify the application of payments from the independent Trust to the IESO".

The equity contribution by WPLP and the Government of Canada capital contribution to WPLP is determined by the Funding MOU. At the management presentation of the application, WPLP advised the OEB that a capital cost of \$1,610 million results in an implied rate base of \$1,550 million and a \$197 million capital contribution from the Government of Canada. The amount allocated to the Trust would be \$1,353 million.<sup>16</sup> In response to interrogatory J-Staff-46, WPLP stated that the Funding MOU has a sliding scale base on approved capital costs. WPLP's equity position goes down as approved capital costs go up, provided WPLP's equity does not go below \$400 million.<sup>17</sup>

In response to interrogatory J-Staff-42, WPLP stated that the amount of the Government of Canada's capital contribution is expected to be less than the value of

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<sup>16</sup> Exhibit KP1 Slide 36

<sup>17</sup> Response to J-Staff-46, "The Funding MOU provides a sliding scale based on total OEB approved capital costs (before Federal Government capital contribution). The sliding scale has WPLP's equity position going down as OEB approved capital costs go up, provided WPLP's equity does not go below \$400M. This provides WPLP with the incentive to control project costs since escalating costs will diminish WPLP's equity participation with an increasing capital contribution."

WPLP's rate base additions relating to the Remote Connection Lines and therefore no capital contributions are expected for the line to Pickle Lake.

At Exhibit B-2-1, WPLP states, "the approvals sought in this application should be considered by the Board in a manner inclusive of a scenario where Canada fails to appropriate funds for the Transmission Project. The proposed cost recovery and rate framework has been designed to work regardless of whether the funding contemplated by the Funding MOU is ultimately received."

## Bill Impacts

The Project is a multi-year project with sections coming into service on a staggered basis as noted in Exhibit C-7-1 and the table below:

**Table 2: Service Milestones**

Event		Forecast Timeline
1	Pikangikum Connection	Q4 2018 <sup>18</sup>
2	Line to Pickle Lake in service	Q4 2020
3	First Community Connected	Q1 2021
4	50% of Communities Connected	Q2 2022
5	Construction Complete	Q4 2023

WPLP provided bill impact evidence at Exhibit J-3-1 of the application. The bill impacts presented did not account for any Government of Canada funding.

Under WPLP's cost recovery proposal, the revenue requirement related to the line to Pickle Lake will be recovered through the UTR. WPLP estimates that the annual revenue requirement associated with the line to Pickle Lake in the period 2024-2033 would be \$32 million, and the monthly bill for a typical residential customer would increase by \$0.19.<sup>19</sup>

Under WPLP's cost recovery proposal, and assuming no government funding, the annual revenue requirement associated with the Remote Connection Lines in the period 2024-2033 is estimated to be \$104 million. The monthly bill for a typical residential customer would increase by \$0.56 due to a 233% increase in the RRRP rate.<sup>20</sup> In

<sup>18</sup> Pikangikum connected to the Ontario Power Grid on December 20, 2018.

<sup>19</sup> Exhibit J-3-1 page 2

<sup>20</sup> Exhibit J-3-1 pages 3-4. In response to J-Staff-60(b), WPLP provides a table that illustrates the 2024-2033 scenario if Government of Canada funding is appropriated for project completion. RRRP would not

response to an OEB staff interrogatory, a revised bill impact analysis using more recent IESO outlook data for Ontario energy demand indicated that the monthly bill for a typical residential customer would increase by \$0.73 due to a 300% increase in the RRRP rate.<sup>21</sup>

Based on the revised bill impact analysis, the monthly bill impact for the Project as a whole was identified to be \$0.93 (due to the 300% increase in the RRRP rate and a 3.7% increase in the network service rate).

While WPLP has estimated bill impacts for the 10 year period after the forecast completion of the Project, the impacts will in fact be staggered due to the service milestones set out in Table 2. The first bill impact will be related to the UTR impact when the line to Pickle Lake is in service (line 2 of Table 2). Ratepayers would experience bill impacts through the annual UTR approval. With respect to lines 3 to 5 of Table 2, as communities are connected, WPLP will apply to the OEB for approval of its revenue requirement related to the Remote Connection Lines. WPLP proposes to charge a transmission rate to HORCI. The expense incurred by HORCI for the WPLP transmission rate would be in HORCI's revenue requirement and form part of the RRRP funding calculation for HORCI. Ratepayers would experience bill impacts through the annual RRRP approval.

WPLP's bill impact estimates as provided in the application do not account for funding from the Government of Canada. WPLP confirmed in its response to J-Staff-74 that Ontario ratepayers will pay increasingly higher RRRP as communities are connected until the OEB has approved all WPLP rate base additions related to the Project. At that point RRRP will drop when funds are released from the Trust.

WPLP has estimated that the Trust would offset RRRP to account for the full impact of the revenue requirement for the Remote Connection Lines for approximately 13 years. In response to J-Staff-48, WPLP explained that:

Subject to finalization of the definitive documents and the discretion of the Trustee, it is WPLP's current understanding that the distributions from the Trust could be equal to WPLP's revenue requirement for the Remote Connection Lines as established by the OEB's Decision and Order pursuant to section 78 of the OEB Act establishing electricity transmission rates for the Remote Connection Lines that include with other segments

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increase by 233% in the period 2024-2033 and there would be no resulting bill impact related to the remote connection lines.

<sup>21</sup> J-Staff-77

the last segment of the Project (and thereby inclusive of rate base for total project costs) that has come or will come into service and will reflect such amount until such time as all the funds in the Trust are fully utilized.

OEB staff submits that the pattern of RRRP (and bill impact) increases, followed by a step decrease, followed by a step increase after 13 years, when the Trust is proposed to be fully utilized, is not ideal. OEB staff recognizes that the Trust will not be subject to WPLP's control or direction,<sup>22</sup> and therefore it does not appear to be feasible for the OEB to impose conditions in respect of the Trust distributions; nevertheless, the OEB may wish to signal in its Decision that it would be desirable for the managers of the Trust to consider impacts on ratepayers when determining the amount and timing of fund distributions so that they facilitate more gradual bill impacts.

## Reliability and Quality of Service

OEB staff takes no issue with the findings of the Final System Impact Assessment (SIA) and Customer Impact Assessment (CIA) reports for the line to Pickle Lake and Remote Connections. OEB staff is also satisfied that the proposed line to Pickle Lake and Remote Connection Lines are consistent with the scope recommended and supported by the IESO. However, OEB staff underscores the importance and necessity of backup supply as a complement to planned remote community connections.

OEB staff submits that leave to construct should be conditional on reporting by WPLP to the OEB on the progress of backup supply arrangements for connecting communities until the Project is complete.

## System Impact Assessment

The Applicant received two Final SIA reports from the IESO: one for the line to Pickle Lake and Remote Connection Lines North of Pickle Lake<sup>23</sup> and the other for the Remote Connection Lines North of Red Lake.<sup>24</sup>

The Final SIA reports assess whether the proposed connection with the IESO-controlled grid would have an adverse impact on reliability of the integrated power system and whether the IESO should issue a notice of conditional approval or disapproval of the proposed connection.

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<sup>22</sup> J-Staff-48 and C-Staff-70

<sup>23</sup> EB-2018-0190, Exhibit G-2-2

<sup>24</sup> EB-2018-1090, Exhibit G-3-2

In each Final SIA report, the IESO concluded that “the proposed connection of the project is expected to have no material adverse impact on the reliability of the integrated power system, provided that all requirements [specified by the IESO in each Final SIA report] are implemented”. The IESO issued corresponding Notifications of Conditional Approval to the Applicant.<sup>25</sup>

### **Customer Impact Assessment**

The Applicant also received two CIA reports from HONI: one for the line to Pickle Lake and Remote Connection Lines North of Pickle Lake<sup>26</sup> and the other for the Remote Connection Lines North of Red Lake.<sup>27</sup>

The CIA reports assess the potential impacts of the proposed new transmission facilities on existing HONI customers in the relevant areas.

In each Final CIA report, HONI concluded that the proposed Project will not adversely impact existing HONI customers in the relevant areas.

### **IESO Scope Document**

The IESO Scope Document<sup>28</sup> sets out the IESO’s recommended scope for the line to Pickle Lake and its supported scope for the Remote Connection Lines.

WPLP’s transmission license (ET-2015-0264) was amended on September 1, 2016 to reflect the Minister of Energy’s Directive to the OEB to amend the conditions of WPLP’s electricity transmission license to include a requirement that WPLP proceed to develop and seek approvals for the line to Pickle Lake, and for the Remote Connection Lines.

The Directive also prescribed that the “development of the line to Pickle Lake shall accord with the scope recommended by the Independent Electricity System Operator” and, with regard to the Remote Connection Lines, the “development of these transmission lines shall accord with the scope supported by the Independent Electricity System Operator.”

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<sup>25</sup> EB-2018-0190, Exhibits G-2-1 and G-3-1

<sup>26</sup> EB-2018-0190, Update to Exhibit H-2-1

<sup>27</sup> EB-2018-1090, Update to Exhibit H-3-1

<sup>28</sup> "Recommended Scope for the new Line to Pickle Lake and Supported Scope for the Remote Connection Project"; Exhibit B, Tab 4, Schedule 1, Appendix D

The Applicant requests a determination from the OEB that the Project is in accordance with the scope recommended or supported, as applicable, by the IESO.<sup>29</sup>

In a letter dated June 21, 2018, the IESO wrote the OEB to confirm that the proposed line to Pickle Lake and Remote Connection Lines are consistent with the scope recommended and supported by the IESO.

OEB staff agrees with WPLP's evidence and IESO's confirmation that the proposed line to Pickle Lake and Remote Connection Lines are consistent with the scope recommended and supported by the IESO.

### **Backup supply**

The IESO Scope Document calls for WPLP to facilitate the arrangement of the backup of electricity supply to maintain, at a minimum, certain essential loads in each of the remote communities. WPLP confirms that all Remote Communities that will be connected to the proposed Project will require backup electricity supply. Without backup supply, communities connected to the Remote Connection Lines would generally experience worse reliability than they do today. For example, the IESO has estimated a range of 70 -179 hours of supply related (transmission) outages per individual community following connection,<sup>30</sup> compared to an annual average range of 2.63 hours to 12.26 hours of supply related outages experienced currently.<sup>31</sup> In other words, the proposed transmission connections alone would tend to be less reliable than the non-connected, diesel-powered systems which exist today.

Importantly, however, the IESO suggests that a combination of transmission and backup supply may result in similar or better reliability to remote communities than the continued use of diesel generation only (i.e. with respect to loss of supply performance).<sup>32</sup> That is, remote connections coupled with backup supply may improve reliability for existing remote communities.<sup>33</sup>

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<sup>29</sup> Pursuant to Section 13.1 and Schedule 1 of WPLP's transmission licence (ET-2015-0264)

<sup>30</sup> "Draft Technical Report and Business Case for the Connection of Remote First Nation Communities in Northwest Ontario"

<sup>31</sup> HORCI-4

<sup>32</sup> Draft Technical Report and Business Case for the Connection of Remote First Nation Communities in Northwest Ontario, page 111 of 113

<sup>33</sup> J-Staff-80: The Ontario Power Authority (OPA) / IESO Business Case includes backup diesel generation in the costing of the transmission scenarios assessed. Moreover, the IESO confirms that, "[...] the OPA / IESO Business Case found that the transmission connection scenarios, which included backup diesel generation, are more cost effective than continuing to rely on diesel generation alone over the 40 year study period for the communities that were determined to be economic to connect".

WPLP has commissioned an analysis and report (BBA Report) on options and costs related to backup supply to the 16 communities to be connected to the Remote Connection Lines. The final BBA Report was delivered to WPLP in May 2018. WPLP has provided the BBA report to “a number of stakeholders”<sup>34</sup> and states that the intended use of the BBA Report is to “provide a basis for informed discussion between the appropriate parties”.<sup>35</sup>

WPLP is engaged with First Nation LP,<sup>36</sup> the Government of Canada and others in a broader process for addressing backup power needs. WPLP describes this process in a passage that merits reproduction in full; the passage highlights WPLP’s engagement as facilitator and makes clear that the process for securing backup power will involve the coordinated efforts of multiple parties with diverse accountabilities:

As part of finalizing the definitive documents for the Government Funding Framework, Canada, Ontario, WPLP and First Nation LP have agreed to enter into a Parallel Process Agreement which outlines the process for addressing backup power needs. As part of the Parallel Process Agreement, Canada and First Nation LP agree that they will continue to work together (including with the Connecting Communities) and will involve other interested parties as appropriate (including Ontario, WPLP, the IESO and HORCI) to develop a backup power plan and commitments for the Connecting Communities that can be put into service following the Completion Date, including giving consideration to appropriate reliability and service standards, and which may include the utilization of existing generation facilities that are in a condition to be safely operated for such purposes in accordance with good utility practice.

ISC [Indigenous Services Canada] has committed to working with the Connecting Communities, the Ontario Ministry of Energy, Northern Development and Mines and HORCI to define the process to establish a backup power implementation plan and finalize an implementation plan in calendar year 2019. Following negotiation of its EPC contract(s), WPLP will communicate the expected timing of the connection date for each Connecting Community to all parties for use in developing the implementation plan. WPLP is therefore confident that the process and commitments made within the Parallel Process Agreements will result in

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<sup>34</sup> HORCI-3

<sup>35</sup> C-Staff-16

<sup>36</sup> The limited partnership interests in WPLP are held 51% by First Nation LP. The limited partnership interests in First Nation LP are held directly by the 24 Participating First Nations in equal shares.

the necessary backup generation being available within the timelines set out by WPLP for the connection of remote communities.<sup>37</sup>

WPLP explains that “Canada and First Nations LP are the parties that are responsible for development and implementation of the backup power plan, including identifying costs, and are thus the parties in control of the timeline for completion. WPLP is a contractual party to the Parallel Process Agreement and will continue with ongoing facilitation during both the planning and implementation stages”.<sup>38</sup>

OEB staff underscores the importance and necessity of backup supply as a complement to planned remote community connections: without backup supply, electric reliability in connected communities will generally be worse than it is today – much worse in some instances. In contrast, the pairing of remote connections and backup supply may result in improved reliability from today’s levels, among other benefits.

OEB staff acknowledges WPLP’s important role and active efforts to date in facilitating the arrangement of backup electricity supply. OEB staff further observes that there are multiple actors and diffuse responsibilities and authorities involved. In this light, OEB staff is concerned about the risk that backup supply might not be secured (a) on time; (b) in sufficient and appropriate quantities; and (c) for all connected communities, including current IPAs.

OEB staff submits that any approval of the WPLP proposal should be conditional on reporting by WPLP to the OEB on the progress of backup supply arrangements for connecting communities. In particular, OEB staff submits that WPLP should file an update to the OEB every six months until completion of WPLP’s Remote Connection Lines. Although OEB staff recognizes that WPLP does not own or operate backup facilities in the communities, and is not ultimately responsible for them, WPLP is required under the IESO Scope Document to facilitate backup power. In OEB staff’s view, a temporary reporting requirement would be in keeping with this obligation. The updates should summarize the status and outlook for backup supply arrangements for each community to be connected and provide a sufficient basis for understanding whether the backup supply is likely to be available when it is required, where it is required and in the amounts required. Moreover, the updates should provide sufficient basis for understanding whether any additional measures might be required to ensure appropriate backup supply implementation.

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<sup>37</sup> C-Staff-16

<sup>38</sup> Ibid.

## Land Matters

OEB staff has no concerns with respect to WPLP's proposed forms of land use agreements.

WPLP has filed the forms of land use agreements it would offer to any private landowner should the need arise. OEB staff has reviewed the forms of land use agreement relative to the OEB's filing requirements.<sup>39</sup> OEB staff submits that the proposed forms of land use agreement conform to the OEB's requirements.

## Other Requests

### Request for Authority under Section 101

OEB staff has no objection to granting WPLP an order pursuant to section 101 of the OEB Act granting authority to construct portions of the proposed transmission facilities upon, under or over a highway, utility line or ditch.

### Low Voltage Segments Deemed Transmission

Pursuant to section 84(b) of the OEB Act, WPLP seeks an order of the OEB deeming the 44 kV and 25 kV line segments in both the Pickle Lake and the Red Lake remote connection networks to be transmission facilities. WPLP stated that notwithstanding that these segments will operate at voltages that are less than 50 kV, they will function as parts of WPLP's transmission system.

WPLP stated that except for Pikangikum distribution lines<sup>40</sup> for which WPLP will hold a distribution licence on a temporary basis, WPLP will not be in the business of distributing electricity, although its proposed transmission facilities include line segments that will operate at voltages of less than 50 kV. WPLP further stated that it has right-sized its design and that the use of distribution-level voltages for certain segments of its transmission facilities and deeming them as transmission facilities is

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<sup>39</sup> Appendix A: Draft Form of Lease or Easement Agreement of the of the OEB's *Filing Requirements for Electricity Transmission Applications, Chapter 4 Applications under Section 92 of the Ontario Energy Board Act, July 31, 2014*

<sup>40</sup> When complete, approximately 113 km of an approximately 117 km line north of Red Lake is currently being constructed to a 115 kV standard from a connection point on Hydro One's distribution system in Red Lake to a switching station serving the Pikangikum First Nation. This segment will operate on an interim basis, at 44 kV until such time as WPLP changes this line's connection point from Hydro One's 44 kV distribution system to WPLP's Red Lake Switching Station.

consistent with the IESO's recommended and supported scope for the Project and will lessen the construction costs compared to the use of transmission voltages to serve the same need. WPLP submitted that its request in this regard is consistent with past OEB decisions allowing distribution-level voltage facilities, which act functionally as transmission facilities to be treated as transmission facilities.<sup>41</sup>

OEB staff has no objection to a determination, pursuant to subsection 84(b) of the OEB Act, that the 44 kV and 25 kV segments of the proposed facilities in both the Pickle Lake and the Red Lake Remote Connection Lines are part of WPLP's transmission system notwithstanding that the voltages of these segments will be less than 50 kV.

### **Request for TSC Exemptions**

WPLP has requested a number of exemptions from the TSC in its application.<sup>42</sup> OEB staff does not object to the proposed temporary TSC exemptions but is of the view that they should be limited to the Remote Connection Lines, and not apply to the line to Pickle Lake. OEB staff proposes specific edits to WPLP's proposed licence amendment to restrict the scope of the exemption to the Remote Connection Lines and also tailor the scope to what is actually required in relation to cost responsibility.

Under the section entitled "Request for TSC Exemptions in Relation to Connection of 16 Remote Communities" WPLP notes the following:

Due to the unique nature of the Transmission Project as a large, new transmission system being developed as a priority transmission project for the primary or initial purpose of connecting remote communities to the provincial electricity grid, there are certain aspects of the TSC that are inconsistent or incompatible with, or are unresponsive of, the Transmission Project. To address these concerns, WPLP is requesting exemptions from certain requirements of the TSC.

The exemptions have been requested on a temporary basis; specifically, until the date when all the facilities are placed in service, or December 31, 2023, whichever is earlier.

OEB staff notes that there are essentially two types of exemption requests. Some are related to certain cost responsibility provisions in the TSC, while the others are related to technical requirements in the TSC and the connection of other customers (aside from the Remote Communities).

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<sup>41</sup> Exhibit C-4-1, pages 1-3

<sup>42</sup> Exhibit C-6-1, pages 4-7

The most notable exemption request involves sections 6.1.2 and 6.3.1. The former relates to the cost responsibility principles set out in the TSC, while the latter requires the transmitter to obtain a capital contribution from the load customer to cover the cost of a connection facility required to meet a load customer's needs. In this case, the customer is HORCI and, in the normal course, HORCI would pay a capital contribution to WPLP and that would be reflected in HORCI's rate base.

According to WPLP, if the exemption from requiring capital contribution from HORCI is not provided, WPLP would not be able to proceed with the Remote Connection project because there would be essentially no funds in its rate base and, as a consequence, it would not be able to finance the Project. WPLP therefore proposes an alternative framework to recover the capital and operating costs from HORCI which involves charging HORCI a new transmission rate and WPLP retaining the cost of the Project in its own rate base. WPLP estimates that about \$104 million would be recovered from HORCI on annual basis through the application of that new transmission rate.<sup>43</sup>

The other TSC exemptions requested by WPLP in the application are set out below:

- *Section 6.1.8:* Requirement to process requests for connection until the transmitter's connection procedures have been approved by the OEB
- *Section 6.2:* Assignment of available capacity on network and connection facilities
- *Section 6.4:* Requirements for undertaking CIAs
- *Section 6.5.2:* Establishment of connection procedures referred to in section 6.1.4 and implementation of a procedure that sets out how the transmitter will carry out an economic evaluation of a proposed new or modified connection of a load customer to determine the capital contribution
- *Section 6.9:* Record keeping and reporting requirements related to economic evaluations

In regard to the request for an exemption from the obligation to connect other customers, WPLP notes its primary objective is to connect the Remote Communities and it does not want to take on additional obligations in relation to connection requests until the transmission system becomes operational. WPLP has indicated that if it receives connection requests during the interim period, it would consider such requests on a case-by-case basis.

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<sup>43</sup> Exhibit J-3-1, pages 3-4

WPLP proposes to effect the TSC exemptions by way of an amendment to its transmission licence. WPLP's proposed language can be found in Exhibit J-1-1, page 15.

As a matter of principle, OEB staff submits that, although exemptions from rules of general application such as the TSC may in some cases be warranted, they should be tailored as narrowly as possible to achieve the purpose of the exemption.

In this case, OEB staff submits that all of WPLP's TSC exemption requests are appropriate, but only in respect of the Remote Connection Lines – not the line to Pickle Lake. The licence amendment, as drafted by WPLP, would apply to the entire Project, including both the Remote Connection Lines and the line to Pickle Lake, as it would exempt "the Licensee" as a whole. In OEB staff's view, it is therefore too broad.

The rationale for the exemptions provided by WPLP is, in OEB staff's view, persuasive, but only in respect of the Remote Connection Lines. OEB staff agrees that WPLP would likely be unable to obtain the necessary financing for the Remote Connection Lines if a capital contribution were to be provided by HORCI. OEB staff is also of the view that the alternative proposed approach to charge a rate to HORCI is preferable from a HORCI customer perspective, as it will smooth cost recovery over time through a rate rather than a one-time lump sum payment of over \$1.2 billion. The smoothing benefit for HORCI customers is not noted in the application but OEB staff believes it is an important consideration.

That said, OEB staff notes that the cost responsibility provisions related to capital contributions in the TSC include true-ups to ensure the customer pays based on *actual* consumption – not *forecast* consumption. An exemption from requiring a capital contribution should not also be construed to be an exemption from the need to undertake true-ups. As such, OEB staff is also of the view that any rate charged by WPLP would need to be approved by the OEB and there should be true-ups to reflect *actual* HORCI customer consumption in order to achieve alignment with the OEB's beneficiary pay principle. Such true-ups would result in rate adjustments to ensure HORCI (and its customers in the remote communities) are not exposed to forecast risk.

The reasoning discussed above does not extend to the line to Pickle Lake in OEB staff's view. OEB staff agrees with WPLP that the line to Pickle Lake should be considered a transmission *network* facility, unlike the Remote Connection Lines which are transmission *connection* facilities and as such would normally trigger a capital contribution under the TSC. WPLP has requested cost recovery from the network pool

per the normal course in relation to the line to Pickle Lake. The line to Pickle Lake is therefore not “unique” in the sense that the Remote Connection Lines are.

OEB staff is of the view that section 6.3.5 which is related to cost responsibility, should apply to the line to Pickle Lake. That section requires a customer to pay a capital contribution in “exceptional circumstances” in relation to a network facility; e.g., where a specific customer triggers the need for a network investment. If such “exceptional circumstances” do arise, an exemption would result in all Ontario ratepayers paying. In OEB staff’s view, that would not be appropriate.

Another example of why WPLP’s proposed licence amendment is too broad is the request for a blanket exemption from section 6.2 of the TSC, which concerns the assignment of available capacity. OEB staff does not take issue with WPLP’s argument that “it may be more appropriate to assign capacity on the basis of future load forecasts as opposed to historical peak load in respect of any of the 16 remote communities initially being connected to WPLP’s transmission facilities”,<sup>44</sup> but the argument only applies to the Remote Connection Lines. The TSC actually prohibits the assignment of available capacity on network facilities,<sup>45</sup> so the issue of assigning capacity on the line to Pickle Lake on the basis of forecasts or historical peaks does not arise, and therefore no exemption in relation to that line is necessary.

Similarly, it is not apparent to OEB staff why the exemption from section 6.4 of the TSC, which sets out the requirements for undertaking CIAs, should apply to the line to Pickle Lake. OEB staff agrees with WPLP that there would be little point in undertaking new CIAs to enable the connection of the 16 remote communities, since a CIA – as well as a SIA – has already been undertaken for the Project as a whole. However, it would appear from the Project maps that none of the 16 remote communities are to be connected directly to the line to Pickle Lake; rather, they will be connected to the Remote Connection Lines. Exempting the line to Pickle Lake from section 6.4 would therefore seem to be unnecessary.

Some of the requested exemptions relate to the connection of customers other than the remote communities. Connecting the remote communities and doing so on schedule will be a major undertaking and it is the purpose of the Project. OEB staff agrees with WPLP that the focus should remain on that purpose at this time. That said, once the remote communities are all connected, OEB staff is of the view that the Remote Connection Lines will cease to be “unique” and WPLP should be treated the same as any other Ontario transmitter in relation to all the OEB’s rules in the TSC. For example,

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<sup>44</sup> Exhibit. C, Tab 6, Sch. 1, page 5

<sup>45</sup> TSC, s. 6.2.1

if another customer (e.g., industrial) requests a connection that causes the need for a connection facility upgrade, WPLP should be obligated to connect, and a capital contribution should be required and it should be determined based on the economic evaluation methodology set out in the TSC. This appears to be WPLP's intent in the application.

To reflect the distinction between the Remote Connection Lines and the line to Pickle Lake, OEB staff sets out below some suggested edits to the licence amendment text proposed by WPLP. In addition, OEB staff's suggested edits are meant to more clearly delineate the scope of the exemptions as they relate to the Remote Connection Lines. In particular, OEB staff's edits would resolve some ambiguity that might be found in WPLP's reference to "All sections relating to cost responsibility" in the language they provided. In OEB staff's view, that wording is overly broad and would be open to interpretation. As such, the exemption should be limited to the cost responsibility sections that specifically deal with customer capital contributions (including those sections dealing with the economic evaluations since they are undertaken to calculate such capital contributions). It might be arguable, for example, whether section 6.3.7 ("A transmitter shall provide connection facilities that have a capacity sufficient to meet the needs of the applicable customer, subject to facilities standards and good utility practice") would be captured by WPLP's proposed wording. On its face, section 6.3.7 does not appear to relate to cost responsibility but does fall under the heading "Cost Responsibility for New and Modified Connections". OEB staff is of the view that this provision should apply to all transmitters.

### **Suggested edits to WPLP's proposed amendments to Schedule 2 of the Transmission Licence**

1. The Licensee is exempted from the following sections of the Transmission System Code, but only in relation to the transmission lines extending north from Red Lake and Pickle Lake as described in section 13.1(b) of this Licence:
  - All sections relating to connection procedures, including but not limited to 6.1.8, 6.2 and 6.4; and
  - All sections relating to customer capital contributions in respect of connection facilities, ~~cost responsibility~~, including but not limited to 6.1.2, 6.3.1, 6.5.2 and 6.9.
2. The exemptions from the Transmission System Code referred to in section 1 of this Schedule are subject to the following conditions:

- The exemptions expire on the date on which all of the facilities listed in Schedule 1 are placed in service, or December 31, 2023, whichever is earlier;
- Wataynikaneyap Power LP shall file Customer Connection Procedures with the OEB by December 31, 2022. These Procedures shall be effective on the date on which all of the facilities listed in Schedule 1 are placed in service, or January 1, 2024, whichever is earlier;
- Wataynikaneyap Power LP's Customer Connection Procedures shall either comply with section 6.1.3 of the Transmission System Code, or shall be accompanied by an application to the OEB requesting specific exemptions of an ongoing nature from the Transmission System Code; and
- In the event that Wataynikaneyap Power LP receives one or more connection requests unrelated to the connection of the customers listed in Schedule 1 in advance of the OEB's approval of Wataynikaneyap Power LP's Customer Connection Procedures, then Wataynikaneyap Power LP shall seek further direction from the OEB with respect to the connection request(s).

## Request for Name Change on Transmission License

The Applicant has recently changed the name of its general partner from 2472883 Ontario Limited to Wataynikaneyap Power GP Inc. OEB staff submits that WPLP's request for an amendment to its electricity transmission licence to replace the name of its general partner from 2472883 Ontario Limited to Wataynikaneyap Power GP Inc. should be approved. OEB staff notes that a similar amendment was recently made for WPLP's distribution license.<sup>46</sup>

## Request for CWIP Deferral Account

As part of its application, WPLP requested that the OEB approve the establishment of a Construction Work in Progress (CWIP) deferral account to record costs relating to the construction of WPLP's Project. WPLP stated that it would transfer the costs recorded in the existing development deferral sub-accounts to their respective CWIP deferral sub-accounts and record capital costs in the new CWIP account from and after the date of OEB's decision and order granting leave to construct until the OEB approves the inclusion of the assets in WPLP's rate base. WPLP proposed that the CWIP deferral

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<sup>46</sup> EB-2018-0267

account would have three sub-accounts similar to the existing development deferral account<sup>47</sup> and that it would record interest in the CWIP deferral sub-account 2055.003 using the interest rate prescribed by the OEB for CWIP accounts.<sup>48</sup>

OEB staff does not take issue with the establishment of a CWIP deferral account as proposed. However, OEB staff is of the view that this approval should be conditional upon establishment of a semi-annual reporting requirement similar to the one prescribed by the OEB in its March 23, 2017, decision and order approving the establishment of a new deferral account for the development of the WPLP's transmission project.<sup>49</sup>

OEB staff have no concerns with the accounting order at Exhibit J-2-1, provided that in a future rate application, the applicant is able to provide a detailed breakdown of costs in a manner similar to the categories provided in the original accounting order in Appendix A of the Decision and Order in EB-2016-0262.

## Cost Recovery Framework

WPLP describes its request with respect to the cost recovery framework in the application at Exhibit B-1-1, page 8:

WPLP requests the Board's approval, pursuant to Section 78(1)<sup>50</sup> of the Act, for a cost recovery framework in respect of the Proposed Transmission Facilities under which the revenue requirement impact arising from the Remote Connection Lines capital and OM&A expense (direct and indirect) would be charged through a transmission rate applicable to service provided from the Remote Connection Lines and the revenue requirement impact arising from all other in-service capital costs and OM&A costs would be recovered through the Uniform Transmission Rate. WPLP requires approval of this framework because it is critical to the success of the Transmission Project and the financial viability of WPLP.

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<sup>47</sup> Account 2055.001 - Other Regulatory Assets, sub-account: Wataynikaneyap Transmission Construction (Principal Balance); Account 2055.002 - Other Regulatory Assets, sub-account: All funding directly received by WPLP for construction activities related to the Project (Principal Balance); and, Account 2055.003 - Other Regulatory Assets, sub-account: Carrying Charges on Net Construction Costs.

<sup>48</sup> EB-2018-0190, Exhibit J, Tab 2, Schedule 1, pages 2-3

<sup>49</sup> EB-2016-0262, Decision and Order, Wataynikaneyap Power LP – Application for an accounting order to establish a deferral account, March 23, 2017, pages 12-13.

<sup>50</sup> As amended in the response to interrogatory B-Staff-3.

The cost recovery framework requires the OEB to grant exemptions to the TSC. OEB staff's submission with respect to the TSC exemptions is in the Request for TSC Exemptions section of this submission. OEB staff notes that proceeding with the TSC exemptions and the cost recovery framework will result in a cost of \$9 million per year in comparison with the scenario set out the TSC in which capital contributions would be provided by HORCI.<sup>51</sup>

OEB staff submits that the OEB's approval of the TSC exemptions together with the July 1, 2016 amendments to O. Reg. 442/01 (Rural or Remote Electricity Rate Protection) effectively provide WPLP with the cost recovery framework that it seeks in this application. It is not readily apparent why any further approvals from the OEB are required. In addition, there remain a number of uncertainties with WPLP's proposed framework making it difficult to foresee the full impact of an approval. However, to the extent that WPLP is seeking comfort regarding the general approach to its future revenue requirement (e.g. that it will consist of a traditional capital structure and an amount for depreciation expense), then OEB staff has no concerns supporting this. OEB staff submits that the specific elements of revenue requirement, including their quanta, should only be approved at the time of a transmission rate application.

### **The TSC Exemptions**

The capital cost of the line to Pickle Lake is forecast to be \$386.9 million including contingency and capitalized interest. Under WPLP's cost recovery proposal, the revenue requirement related to the line to Pickle Lake will be recovered through the UTR and solely via the network service rate (i.e., network pool).

As noted in the Request for TSC Exemptions section of this submission, OEB staff agrees with WPLP that the line to Pickle Lake should be considered a network facility. OEB staff submits that the revenue requirement related to the line to Pickle Lake would therefore be recovered through the Network Pool of the Uniform Transmission Rates. OEB staff submits that the OEB's approval of the revenue requirement recovery mechanism for the line to Pickle Lake is not required. As noted in the Request for TSC Exemptions section of this submission, this is the normal course for all network assets in Ontario.

The capital cost of the Remote Connection Lines is forecast to be \$1,261.7 million including contingency and capitalized interest. WPLP has requested an exemption from the requirements of the TSC with respect to capital contributions in order to implement

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<sup>51</sup> Response to interrogatory J-Staff-58(b)

its cost recovery proposal for the Remote Connection Lines. The proposal entails adding the full capital spend on the Remote Connection Lines to WPLP's rate base. The full expected revenue requirement related to the Remote Connection Lines (return on equity, depreciation, OM&A, etc.) would be charged to HORCI through an OEB approved transmission rate. The expense incurred by HORCI for the WPLP transmission rate would be in HORCI's revenue requirement and form part of the RRRP funding calculation for HORCI.

As noted in the Request for TSC Exemptions section of this submission, OEB staff submits that the OEB should approve the TSC exemptions requested by WPLP regarding capital contributions (with certain revisions to scope the exemptions appropriately). OEB staff submits that the OEB's approval of the TSC exemptions together with the RRRP provisions effectively provide WPLP with the cost recovery framework that it seeks in this application. Specifically, the line to Pickle Lake revenue requirement will be recovered through UTR. HORCI's revenue requirement will include any amounts approved by the OEB related to the Remote Connection Lines (as described by paragraph 4(2.1)2 of O. Reg. 442/01).

WPLP states in the application and in the response to interrogatory J-Staff-43 that the OEB's approval of the cost recovery framework is required for financing purposes, in particular the ability to raise capital from non-government third parties.

The response to interrogatory J-Staff-43 sets out construction financing of \$1,355 million from the Government of Ontario and \$295 million from non-government third parties. The response states:

Without approval of the proposed recovery framework, WPLP would be left with a rate base of approximately \$0.39 billion despite a project cost of \$1.65 billion. The insufficient rate base and resulting revenue stream would negatively impact WPLP's ability to finance the project and to generate sufficient earnings to reinvest in its system, thereby adversely impacting WPLP's ability to raise capital.

OEB staff submits that the exemption from the TSC requirement regarding capital contributions for connection facilities should remove the financing concern with respect to rate base for the Project. And as noted previously, the provisions of the amended O. Reg. 442/01 set out requirements regarding revenue requirement recovery for the Remote Connection Lines.

Further, OEB staff notes that several elements of the Project remain a work in progress, (i.e., uncertain), including:

- Definitive documents related to Funding MOU, expected to be finalized in Q1 2019 (response to J-Staff-70)
- Financing arrangements with the Government of Ontario for a loan of \$1.355 billion has not been finalized (response to J-Staff-71(b)(i))
- The source of the Government of Ontario financing arrangement has not been finalized (response to J-Staff-71(b)(ii))
- Regulatory amendments to clarify the application of payments from the Trust to the IESO will be considered by Ontario (response to J-Staff-74)
- Transmission Line Routing (amendment filed January 28, 2019)

OEB staff submits that the OEB's approval of the significant TSC exemptions should be sufficient to allow the Project to proceed. If this is not the case, then WPLP should explain this further in its reply submission while doing so by pointing to existing evidence on the record.

That said, while OEB staff prefers a further explanation from WPLP as to why it requires the OEB to go beyond the TSC exemptions and the already existing RRRP regulation amendments, OEB staff is not opposed to the OEB approving the structure of the transmission revenue requirement in principle subject to a detailed review of the costs in the forthcoming transmission rate case. OEB staff elaborates further on this in the next section.

### **Revenue Requirement**

WPLP's cost recovery framework is set out at Exhibit J-1-1. The 15 page exhibit includes the background matters related to the TSC exemptions and the details of the requested licence amendment. At page 5, it states: the line to Pickle Lake would be funded through the network charge under the UTR and its costs socialized over all Ontario ratepayers. The specifics of the cost recovery framework for the Remote Connection Lines are described on pages 10 and 11:

WPLP proposes the following rate framework to establish a transmission rate applicable only to the transmission service provided by the Remote Connection Lines:

- WPLP would expend capital in respect of the Remote Connection Lines and, once in service and approved, add that amount to its rate base. The addition to rate base of the Remote Connection Lines' capital cost would result in a revenue requirement impact that would include, among other things, the cost of capital based on the weighted average cost of capital (at the accepted 60/40 ratio) and the return of capital through the depreciation expense.
- The Remote Connection Lines' capital cost would be recorded and accounted for separately from the line to Pickle Lake. Rate base additions for the Transmission Project would be segregated into two pools: (i) the amount for the Remote Connection Lines, and (ii) all other in-service capital costs. The revenue requirement impact would be calculated for each pool per the current regulatory revenue requirement methodology for transmitters.
- To permit recovery of WPLP's OM&A expense, the expense will be allocated between the Remote Connection Lines and the line to Pickle Lake on the basis of direct cost and indirect costs allocated based on the proportionate asset value in each rate base pool relative to total rate base.
- The resulting revenue requirement impact arising from the Remote Connection Lines capital and OM&A expense would be charged to Hydro One Remotes as a direct expense through a rate applicable to service provided from the Remote Connection Lines. The expense incurred by Hydro One Remotes in respect of this transmission rate would be in Hydro One Remotes' revenue requirement and as such form part of the RRRP funding calculation and RRRP payable to Hydro One Remotes.
- The revenue requirement impact arising from all other in-service capital costs and OM&A costs would be recovered through the UTR.

On the basis of these mechanics, WPLP requests that the Board approve the foregoing rate framework and direct WPLP to propose rates based on this framework in its first rate application in which such a request is appropriate.

As noted above, OEB staff supports the approval of the above framework in principle (preferably with a further explanation from WPLP as to why this level of detail for the approval is required to secure financing arrangements) but the details of the specific

elements of revenue requirement must be left to the forthcoming rate case. The bulleted list above notes WPLP's proposal with respect to cost of capital and allocation of OM&A expense. It is not clear to OEB staff whether WPLP has embedded any other revenue requirement assumptions in its proposal. OEB staff is making no submission on whether WPLP's proposal with respect to the details of cost of capital or the allocation of OM&A expense (for example) is appropriate.

## Conditions of Approval

The OEB Act permits the OEB, when making an order, to "impose such conditions as it considers proper."<sup>52</sup> OEB staff proposes that standard conditions of approval, as well as certain additional project-specific conditions of approval, be placed on WPLP.

### Standard Conditions of Approval

OEB staff proposes the following standard conditions of approval to be included:

1. Leave to construct shall be in accordance with the OEB's Decision and Order in the proceeding and subject to fulfillment of the requirements of the System Impact Assessment and Customer Impact Assessment and all other necessary approvals, permits, licences, certificates and rights required to construct, operate and maintain the proposed facilities.
2. Unless otherwise ordered by the OEB, authorization for leave to construct shall terminate 18 months from the date of the Decision and Order, unless construction has commenced prior to that date.
3. WPLP shall advise the OEB of any proposed material change in the Project, including but not limited to changes in: the proposed route, construction schedule or the necessary environmental assessment approvals, and all other approvals, permits, licences, certificates and rights required to construct the proposed facilities.

### Additional Conditions for WPLP

OEB staff submits that the additional conditions of approval below should be established.

1. WPLP shall continue to file a semi-annual progress report in accordance with the OEB's Decision and Order on WPLP's application for a deferral

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<sup>52</sup> OEB Act, s. 23

account to record costs incurred in relation to the development of the Project (EB-2016-0262).<sup>53</sup>

2. At the same time WPLP files the semi-annual progress report required under the previous condition, WPLP shall file an update on the progress of backup supply arrangements for the connecting communities. The report shall summarize the status and outlook for backup supply arrangements for each community to be connected.
3. WPLP shall file a detailed submission of the final costs of the Project as part of its first rate application. The review shall provide a variance analysis of project cost, schedule and scope compared to the original estimates, including the extent to which the project contingency was utilized.

All of which is respectfully submitted.

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<sup>53</sup> EB-2016-0262, Decision and Order, issued March 23, 2017. The Decision and Order requires a progress report every January 15 and July 15 covering the following areas: (a) overall project progress; (b) costs and funding; (c) schedule and milestones; (d) risks and issues log.