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DECISION AND ORDER

EB-2019-0120

HYDRO ONE NETWORKS INC.

**Application for Approval of the Allocation of Construction Costs of
the Supply to Essex County Transmission Reinforcement Project**

BEFORE: Emad Elsayed
Presiding Member

August 1, 2019

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1 INTRODUCTION AND SUMMARY

This is a Decision and Order on an application filed with the Ontario Energy Board (OEB) by Hydro One Networks Inc. (Hydro One), a licensed electricity transmitter, seeking approval of the allocation of construction costs of the Supply to Essex County Transmission Reinforcement (SECTR) Project between the triggering customer and the network pool (i.e., all Ontario ratepayers). The application was filed under section 6.3.18A of the Transmission System Code (TSC).

Hydro One initially sought approval for the allocation of construction costs in its 2013 application for leave to construct the SECTR Project.¹ The triggering customer is Hydro One itself, in its capacity as a licensed distributor (referred to as Hydro One Distribution in this Decision and Order).

As part of the leave to construct application, Hydro One filed a report prepared by the Ontario Power Authority (now part of the Independent Electricity System Operator or IESO) that set out the recommended methodology for the purpose of such an allocation of costs between a connecting customer and the network pool. This was a new concept at that time and the OEB's TSC cost responsibility rules did not contemplate recovering any costs associated with a connection asset through the network pool. The OEB therefore granted leave to construct the project, but decided to initiate a policy consultation process to consider changes to the TSC cost responsibility rules including the Hydro One proposal, which was termed the "proportional benefit" approach.² In doing so, the OEB also approved a deferral account pending the outcome of that consultation process.

On December 18, 2018, the OEB issued final TSC amendments which included the new section 6.3.18 setting out the proportional benefit approach, whereby a transmitter allocates some costs of a new connection investment to the network pool where the applicant demonstrates that the investment also provides benefits to the network. A related new section 6.3.18A requires the transmitter to obtain OEB approval of its proposed allocation of costs between the triggering customer(s) and the network pool.³ The new TSC rules are generally consistent with the proposed approach set out in

¹ EB-2013-0421

² EB-2016-0003

³ Section 6.3.18A states "Where section 6.3.18 applies, the transmitter shall apply to the Board for approval of the attribution of costs between the triggering customer(s) and the network pool. Where the Board approves a different attribution of costs, the transmitter shall recalculate the capital contribution to be made by the triggering customer(s)".

Hydro One's leave to construct application. The finalization of those TSC amendments permitted Hydro One to proceed to file the current application.

The OEB finds that Hydro One's proposed allocation method is consistent with section 6.3.18 of the TSC. The OEB also finds that, in this case, the most up-to-date cost information should be used to calculate the cost allocation between the triggering customer (Hydro One Distribution) and the network pool (Ontario ratepayers). This results in the allocation of the total project cost of \$57.5 million as follows: \$43.8 million to Hydro One Distribution and \$13.7 million to Ontario ratepayers.

The OEB notes that the issues raised with respect to the cost allocation within the distribution system are beyond the scope of this proceeding and are not discussed in this Decision and Order.

2 THE PROCESS

Hydro One filed its application on February 28, 2019 for the allocation of construction costs of the SECTR Project between the triggering customer (Hydro One Distribution) and the network pool (Ontario ratepayers). The OEB issued a Notice of Application on May 3, 2019 inviting parties to apply for intervenor status. The London Property Management Association (LPMA), School Energy Coalition (SEC), the IESO, Entegrus Powerlines Inc. (Entegrus Powerlines), and Essex Powerlines Corporation (Essex Powerlines) applied for and were granted intervenor status. LPMA and SEC also applied for and were granted cost eligibility.

On April 4, 2019, the OEB issued a letter to the IESO, requesting confirmation from the IESO that the broader network need still exists and the attribution of costs is appropriate for the SECTR Project. The IESO responded on April 26, 2019, stating that:

The IESO confirms that the IESO and Hydro One discussed upgrading autotransformers at Keith TS and that the IESO indicated support for upgrading to 250MVA. The IESO can also confirm that the upgrade would reduce avoided network costs; however the IESO is not providing comment on the magnitude of the cost savings.⁴

However, the IESO questioned Hydro One's proposed use of an updated construction cost for the SECTR project, while continuing to use the estimated avoided network costs from the initial leave to construct proceeding (i.e., not updated), for the purpose of determining the allocation of costs.⁵

The OEB issued Procedural Order No. 1 on May 24, 2019 with a timetable for a written discovery process. SEC, LPMA, Entegrus Powerlines, and OEB staff filed written submissions with respect to the application. Hydro One filed its reply submission on July 12, 2019.

⁴ IESO confirmation letter, April 26, 2019, page 1.

⁵ IESO confirmation letter, April 26, 2019, page 2.

3 DECISION

As contemplated by the OEB when the recent revisions to the TSC were made, Hydro One determined the proportional benefit (and the related attribution of costs) based on a notional scenario whereby the network need and triggering customer need are addressed by separate investments to ascertain the proportion each contributes to the aggregate cost of those individual investments. The relative proportions are then applied to the total cost of the actual integrated solution (i.e., SECTR Project) that addresses both needs in order to allocate the costs.⁶ The cost allocation based on three scenarios, including the updates provided by Hydro One that impact those allocations, are summarized in the table below:

#	Nature of the Costs	Estimated Cost (\$M) Filed in the SECTR leave to construct application	Estimated Cost (\$M) Filed in this application	Estimated Cost (\$M) Updated in the Response to Interrogatories in this proceeding
1.	Avoided Network Cost	\$22.5	\$20.5	\$18.1
2.	Actual Cost for SECTR Project	\$77.4	\$54.3	\$57.5
3.	Total Cost \$ (1+2)	\$99.9	\$74.8	\$75.6
4.	\$ and % allocated to Transmission Ratepayers (4=1/3)	\$12.9 (22.5%)	\$14.9 (27.4%)	\$13.7 (23.9%)
5.	\$ and % allocated to the Triggering Customer (5=2/3)	\$44.6 (77.5%)	\$39.4 (72.6%)	\$43.8 (76.1%)

In the leave to construct application, the avoided network cost was a total of \$22.5 million and involved three investments, including the 125 MVA autotransformers at Keith

⁶ As the OEB explained in the Notice of Proposal to Amend a Code, September 21, 2017 (EB-2016-0003), "The methodology relies on a proxy to estimate the cost to address each need individually, which provides the basis to determine the apportionment" (page 7).

Transmission Station (TS) with 250 MVA units. However, Hydro One stated in the current application that:

The previous figure of \$22.5 M in the original SECTR Project filing has been lowered to \$20.5 M due to a reduction in avoided network costs following the determination by the IESO of the **need to replace the end-of-life 125 MVA autotransformers at Keith TS** with 250 MVA units **regardless of the SECTR Project facilities.**⁷ [Emphasis added.]

Consistent with the initial leave to construct application, the current application identifies that the remaining two investments would continue to be required to address the network need, which include upgrading the J3E/J4E circuits to 1,600 amps (from Keith TS to Essex 1 TS) and installing 50 MVar of reactive support (in the Windsor-Essex area).

In OEB staff interrogatory #2, Hydro One was asked if the \$20.5 million related to those two investments to meet the network need had been re-estimated and, if not, to provide an updated cost estimate. As part of that interrogatory response, Hydro One acknowledged that the cost estimate had not been reviewed since the initial application and provided a revised cost estimate of \$18.1 million.

In the leave to construct application, the estimated cost of the investment that would address the customer need was \$77.4 million. In the current application, an updated cost of \$54.3 million was used for cost allocation purposes. In responding to OEB staff interrogatory #2, Hydro One clarified that the \$54.3 million in the application was actually not the final actual cost. Instead, Hydro One indicated it “represented only the actual cost to date” and “some additional costs still remain to be finalized”. As a result, Hydro One provided a further final cost estimate for the SECTR Project that was \$3.2 million higher at \$57.5 million.

OEB staff, SEC and LMPA, in their submissions, supported the use of the most recent cost estimates, as reflected in the interrogatory responses in determining the cost attribution between the triggering customer (\$18.1 million) and the network pool (\$57.5 million). LMPA and OEB staff noted in their submissions that the difference between using the most recent estimates and the cost estimates filed in the 2013 SECTR application is not material.

⁷ Hydro One Current Application, page 1.

Based on the most recent cost estimates, the allocation to the network pool (all Ontario ratepayers) is \$13.7 million, which results in a \$43.8 million cost allocation to Hydro One Distribution.

In its reply submission, Hydro One agreed that the most up-to-date cost estimates available should be used, including the updated project cost of \$57.5 million, for cost allocation purposes and therefore proposed \$43.8 million (76.1%) of the SECTR Project cost be allocated to Hydro One Distribution.

Findings

The OEB finds that the proposed allocation method using the proportional cost approach as a proxy for proportional benefits is consistent with the proportional benefits principles articulated in section 6.3.18 of the TSC.

The OEB also finds that, in this case, the most up-to-date cost forecasts should be used to calculate the cost allocation between the triggering customer (Hydro One Distribution) and the network pool (Ontario ratepayers). This results in an allocation of the total project cost of \$57.5 million as follows: \$43.8 million to Hydro One Distribution and \$13.7 million to Ontario ratepayers.

However, it is important to note that this was an exceptional case. In the SECTR leave to construct case, the OEB specifically deferred the cost allocation issue, pending the outcome of the broader policy consultation process discussed above.⁸ Normally, the transmitter will be expected to calculate and seek approval of the allocation of costs between the triggering customer(s) and the network pool at the time leave to construct is sought in relation to the project.

A number of issues were raised during this proceeding, which the OEB considers to be beyond the scope of this proceeding. For example, the OEB finds that the question of capital contributions from the downstream embedded distributors is best addressed following this Decision and Order. The OEB notes, however, that Hydro One has provided some preliminary information⁹ in its reply submission regarding the magnitude of potential capital contributions from each embedded distributor.

Another area raised by one intervenor in this proceeding is the possible provision of upfront approval of downstream capital contributions as part of future leave to construct

⁸ In its Decision and Order on Phase 1 of the SECTR leave to construct case, the OEB noted “the cost allocation matters in respect of the SECTR Project can be dealt with subsequent to the commencement of the project”, EB-2013-0421, July 16, 2015, page 10.

⁹ The capital contributions related to the transformation investment for the embedded distributors are: Essex Powerlines of \$8,600, Entegrus Powerlines of \$35,000 and E.L.K. of Nil.

proceedings. The merits of this approach are beyond the scope of this proceeding and not discussed in this Decision and Order.

4 ORDER

THE ONTARIO ENERGY BOARD ORDERS THAT:

1. The OEB approves the following allocation of the SECTR Project costs: \$43.8 million to Hydro One Distribution and \$13.7 million to the network pool.
2. LPMA and SEC shall submit their cost claims no later than August 8, 2019.
3. Hydro One shall file with the OEB and forward to LPMA and SEC any objections to the claimed costs no later than August 15, 2019.
4. LPMA and SEC shall file with the OEB and forward to Hydro One any responses to any objections for cost claims no later than August 22, 2019.
5. Hydro One shall pay the OEB's costs of and incidental to this proceeding upon receipt of the OEB's invoice.

DATED at Toronto August 1, 2019

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary