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Oded Hubert
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BY COURIER

June 29, 2015

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700,
2300 Yonge Street
Toronto, ON M4P 1E4

Dear Ms. Walli:

EB-2013-0421 – Hydro One Networks Inc. Section 92 – Supply to Essex County Transmission Reinforcement Project – Hydro One Networks' Submission as per PO.#6

As per Procedural Order 6, please find attached Hydro One's Submission describing the changes the inclusion of distribution costs would have on its determination of the preferred alternative.

Electronic copy of this submission has been filed using the Board's Regulatory Electronic Submission System.

Sincerely,

ORIGINAL SIGNED BY ODED HUBERT

Oded Hubert

Att.

c/ Intervenors of Record (EB-2013-0421)

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

AND IN THE MATTER OF an application by Hydro One Networks Inc. for an order or orders pursuant to section 92 of the *Ontario Energy Board Act, 1998* (as amended) granting leave to construct transmission line facilities in the Windsor-Essex Region, Ontario.

SUBMISSION OF HYDRO ONE NETWORKS INC.

Hydro One Networks Inc. ("Hydro One") makes this submission in response to Procedural Order No. 6, dated June 22, 2015, in which the Ontario Energy Board (the "Board") has stated that it will proceed to make a determination on Phase 1 of this proceeding (Hydro One's requested approval for Leave to Construct the Supply to Essex County Transmission Reinforcement -- "SECTR" Project) without awaiting the outcome of Phase 2 (request for approval of a cost allocation methodology to address the project costs). To accomplish this, the Board wishes to determine the need for the SECTR Project, which is part of Phase 1 of this proceeding. However, the Board noted that Hydro One, in response to the E3 Coalition's Interrogatory #19, "revealed that, in addition to the transmission costs for the proposed Leamington T.S., there would be a further $19.3M of distribution level costs required to bring this transformer station into service."[1] The Board also referenced an undertaking which identified about $10M of distribution costs associated with Division T.S., the chief alternative against which Leamington T.S. was assessed.[2] In the said Procedural Order, the Board directed Hydro One to file a submission describing what changes, if any, the inclusion of the $19.3M in distribution costs would have on its determination of the preferred alternative.

To clarify the record, Hydro One first informed all parties of the possibility of related distribution costs well before the interrogatory phase, in its May 23, 2014, updated

[1] EB-2013-0421, Procedural Order No. 6, June 22, 2015, page 2.
[2] Exhibit JT1.10.

Application, by stating that "Hydro One will also allocate the associated project facility costs, such as distribution feeders, to the Project's beneficiaries."[3] Hydro One stated this to ensure that there was no misunderstanding of its intentions pertaining to the costs to be allocated among distributors and their customers. While reviews of transmission projects in Leave to Construct proceedings do not require evidence on related distribution costs[4] (as these are transmission investments under review), such costs are routinely incurred by distributors in order to connect to a new transmission station. Having introduced a new element (the proposed cost allocation methodology) into this application, Hydro One wanted to be clear that, if this or another methodology were approved, it wished to extend the same treatment to related distribution costs.

The following summarizes the IESO's and Hydro One's assessment processes and the reasoning that led to the Leamington T.S. Project as the preferred alternative.

The IESO's evidence, filed at Exhibit B, Tab 1, Schedule 5, pages 35-43, describes the two transmission alternatives in some detail. Table 6 compares the two alternatives in terms of their capability to address the two needs identified -- the need to increase restoration capability in the J3E-J4E subsystem and the need for additional capacity to meet electricity demand in the Kingsville-Leamington area. It also compares these options on the basis of additional benefits and total transmission cost. Based on this assessment, it was clear that Leamington T.S. was the preferred alternative as it meets the stated needs with a significantly lower transmission investment. Further, the Leamington T.S. option provides a number of additional benefits, one of which is the reduction in costs associated with transformer replacements at Kingsville T.S. Another benefit is the provision of greater geographic and electrical supply diversity for the Kingsville-Leamington area, as the Leamintgon T.S. alternative allows the area load to be backed up by another transformer station that is 12 km away from Kingsville. The Division T.S. option, however, requires the supply for the entire Kingsville-Leamington area to be supplied from Kingsville T.S. (effectively "putting all eggs in one basket").

[3] Exhibit B, Tab 4, Schedule 5, page 6, lines 21 and 22.
[4] As discussed by Mr. Young and Mr. Cincar, Technical Conference Transcript, page 201, lines 5 -13.

Furthermore, the Environmental Study Report (referenced in Exhibit B, Tab 6, Schedule 1 and approved by the Ministry of the Environment) stated a preference for the Leamington T.S. alternative based on socio-economic environment and stakeholder perspectives.[5]

More specifically with respect to the Board's question on the costs of the two alternatives, Tables 7 and 8 of the IESO's evidence (Exhibit B, Tab 1, Schedule 5, page 42) break down the transmission costs for both the Division T.S. and the Leamington T.S. alternatives. Once distribution costs are added as shown in Table 1 below, the total cost for the Division T.S. alternative rises to $107.7M, whereas that for the Leamington T.S. alternative rises to $96.7M. (Please note that this does not include the $6M benefit of cost savings arising from the reduction in the Kingsville T.S's transformer replacement costs.)

Table 1
Comparison of Division T.S. and Leamington T.S.:
Transmission and Distribution Costs

Facilities	**Division T.S. ($M)**	**Leamington T.S. ($M)**
Transmission Costs	97.7	77.4
Distribution Costs	10.0	19.3
Total Costs	**107.7**	**96.7**

Therefore, in response to the Board's question, the addition of distribution costs to this assessment will *not* change Hydro One's recommendation.[6] The IESO's and Hydro One's position remains that Leamington T.S. is the preferred option, in terms of cost and benefits, even with distribution costs factored into the assessment for both alternatives.

Hydro One also wishes to comment on the Board's intent to issue a Decision on Phase 1, enabling construction on the project to move forward while the cost allocation process is

[5] "Environmental Study Report – Supply to Essex County Reinforcement Project," page 94, "Table 5-1: Comparison of Transmission System Alternatives 1 and 2" [in which Alternative 1 is Division T.S. and Alternative 2 is the Leamington T.S.]
http://www.hydroone.com/Projects/SupplyEssex/Documents/Final%20ESR/Environmental%20Study%20Report.pdf.

[6] As Mr. Young and Ms. Garner explained in the Technical Conference, Transcript, pages 203, line 2, to page 204, line 13.

determined. The Board states that "The cost allocation matters being considered in Phase 2 are not determinative of the need for the project."[7] While this is true, the Board's ultimate decision on cost allocation (or other method of cost recovery) will determine the parties that bear cost responsibility and hence must contribute funding, the amounts required, and therefore, the risks faced by the various participants. Both the transmission and distribution businesses of Hydro One, as well as other distributors and retail customers, need certainty on cost treatment before investments are made. While Hydro One is very supportive of the Board's desire to expedite the project, settlement of the cost allocation methodology is critical to allow the project to proceed, as written in Exhibit A, Tab 3, Schedule 1, page 2:

> "In an effort to ensure regulatory certainty for ratepayers (including Hydro One Distribution, embedded local distribution companies and large commercial distribution customers) a decision on a methodology for allocating, at the distribution level, the upstream customer-related investment costs is required in order for Hydro One to proceed with the SECTR Project."

This issue was discussed a few times during the Technical Conference,[8] of which the following exchange between Mr. Sasso, Mr. Young and Mr. Brown is the most representative:[9]

> "MR. SASSO: Okay. And the last -- I think I've got two more here. If the OEB does not accept that the existing customers at Kingsville TS should pay when they're shifted from Kingsville TS to Leamington TS, would that prevent the project from moving forward?
>
> MR. YOUNG: Again, that would depend on the economics at that time, who is coming to the table, what's the load forecast. I don't think I could speculate at this time.
>
> MR. BROWN: What I can tell you is, if no one pays, no one builds it.

[7] Procedural Order 6, page 2.
[8] Transcript, page 133, line 18 to page 134, line 6; also, page 178, lines 4- 14.
[9] Transcript, page 190, lines 10-26.

> MR. SASSO: Well, what the question means is that if only Hydro One Distribution was paying and Hydro One Distribution wasn't able to download the costs to the other LDCs and had to absorb it either within its own ST customers or its own rate base, do you see any impediment to the project moving forward on that basis?
>
> MR. BROWN: Yes."

As shown above, the cost allocation methodology is a critical step in the decision to move forward on the SECTR Project. The Board's Procedural Order No. 6 states that "If Phase 1 is approved these matters can be dealt with as the necessary facilities are being put in place." If it is the Board's intent that Hydro One proceed with the project before the cost allocation process is determined, Hydro One would seek assurance, on behalf of its shareholder and ratepayers, that the project costs are recoverable from the appropriate parties. Specifically, Hydro One offers the following potential options for the Board's consideration:

1. The Board approve an interim methodology and associated cost recovery agreements for execution with parties. Once these agreements are signed, Hydro One would then commence construction procedures (per Exhibit B, Tab 5, Schedule 2);

2. Alternatively, if the Board does not wish to approve an interim methodology, Hydro One would capture all construction project costs in a new Board-approved transmission deferral account and could begin the construction process.

In both of these options, once the Board's new cost allocation rules are in place, Hydro One would apply them retroactively in accordance with the Phase 2 Decision.

In the event the Project's facilities are not ultimately placed in service, Hydro One would seek future disposition of any otherwise unrecovered costs, via a deferral account, from all transmission ratepayers. Hydro One is willing to provide quarterly cost and progress reports on the SECTR Project.

All of which is respectfully submitted for the Board's consideration.