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BY COURIER

July 05, 2018

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
P.O. Box 2319
Toronto, ON
M4P 1E4

Dear Ms. Walli:

**EB -2018-0098 - Hydro One Networks Inc.'s Section 92 - Kapuskasing Area
Reinforcement Project – Argument-in-Chief**

In accordance with Procedural Order No. 3, please find attached the Argument in Chief in support of the leave to construct sought to complete the Hydro One Kapuskasing Area Reinforcement Project ("KAR Project" or "Project").

An electronic copy of this Argument-in-Chief has been filed through the Ontario Energy Board's Regulatory Electronic Submission System (RESS). Hard copies will be couriered shortly.

Sincerely,

ORIGINAL SIGNED BY JOANNE RICHARDSON

Joanne Richardson

Attach.

IN THE MATTER OF an application made pursuant to sections 92 and 97 of the *Ontario Energy Board Act, 1998* by Hydro One Networks Inc. for approval to upgrade an existing 115 kilovolt electricity overhead transmission line and associated station facilities between Spruce Falls Junction and Carmichael Falls Junction in the Kapaskasing area

HYDRO ONE NETWORKS INC.

ARGUMENT-IN-CHIEF

July 5, 2018

- 1 1. Pursuant to Ontario Energy Board (“OEB”) Procedural Order #3 (“PO #3”) issued June 27, 2018, Hydro One
2 Networks Inc. (“Hydro One”) provides this Argument-in-Chief (“AIC”) in support of the leave to construct
3 sought to complete the Hydro One Kapuskasing Area Reinforcement Project (“KAR Project” or “Project”).
4
- 5 2. The AIC will provide an analysis of relevant policies, filing guidelines and/or applicable legislation, prior cases
6 that have dealt with similar issues, the Hydro One pre-filed evidence, and, as requested by PO #3, a review and
7 analysis of the documentation provided by Atlantic Power Corporation (“APC”). In so doing, this AIC will
8 address any inaccurate representations made in the APC documentation on the record of this proceeding. In
9 concert with those submissions, Hydro One will also address comment letters that have been provided to the
10 OEB in this proceeding.
11
- 12 3. The Project seeks approval under s. 92 of the *Ontario Energy Board Act, 1998* (“OEB Act”) to reconductor
13 32km of circuit H9K from Spruce Falls Junction (“JCT”) to Carmichael Falls JCT and install new reactive
14 control facilities (10 MVar capacitor and 10 MVar reactor) at Kapuskasing Transmission Station (“TS”) . It is
15 anticipated that the Project will be completed entirely within Hydro One’s existing corridor. In the event that
16 property rights will need to be negotiated, approval is being sought for the forms of the agreement offered or to
17 be offered to affected landowners, pursuant to s. 97 of the OEB Act. The Project will result in no impact
18 (\$0.00/kw/month) in the network connection pool rate and no impact (0.00%) on the overall average Ontario
19 consumer’s electricity bill. This Project is in the public interest, and Hydro One submits that it should be
20 approved by the OEB.
21
- 22 4. The Project is required because the Independent Electricity System Operator (“IESO”) has identified that
23 increased power transfer limits across H9K will be required to supply Kapuskasing area loads as a result of the
24 inability to rely on local generation facilities as a firm generation source. This increased power demand causes
25 sections of the H9K circuit to become overloaded¹. These needs are referenced in this AIC as the IESO Need
26 Assessment. As a result of the IESO Need Assessment, circuit H9K and associated station facilities need to be
27 upgraded.
28
- 29 5. Hydro One’s leave to construct application adheres to all the *OEB Filing Requirements for Transmission*
30 *Applications Chapter 4: Applications Under s. 92 of the Ontario Energy Board Act*² (“the OEB Filing
31 Requirements”). The OEB Filing Requirements have been formulated to align the information required from
32 applicants with the OEB’s statutory authority that is relevant to the adjudication of leave to construct
33 applications.
34

¹ EB-2018-0098 – Hydro One Pre-filed Evidence – February 5, 2018 – Exhibit B, Tab 3, Schedule 1, Attachment 1

² Ontario Energy Board - OEB Filing Requirements for Transmission Applications Chapter 4 Applications Under s. 92 of the Ontario Energy Board Act – July 31, 2014

6. There has been evidence provided by APC that the APC facilities are renewable energy generators³. Comment letters submitted to the OEB seem to imply or suggest that by approving the Hydro One KAR Project, the OEB would not be promoting renewable generation. One comment letter also suggests that pursuant s. 96(2) of the OEB Act, the OEB needs to balance the promotion of renewable generation with the interests of consumers with respect to prices and reliability and quality of service⁴.

7. For clarification purposes, and to ensure proper reference to the OEB Act, s. 96 of the OEB Act is provided below:

Order allowing work to be carried out

96 (1) If, after considering an application under section 90, 91 or 92 the Board is of the opinion that the construction, expansion or reinforcement of the proposed work is in the public interest, it shall make an order granting leave to carry out the work.

Applications under s. 92

(2) In an application under section 92, the Board 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.*

8. Emphasis has been intentionally added to the latter half of the extract in s. 96(2) of the OEB Act. Though it is true that the OEB should consider the promotion of the use of renewable energy sources in assessing whether the public interest has been met in a leave to construct application, such consideration should be done in a manner that is consistent with the policies of the Government of Ontario.

9. Through Hydro One's interrogatory responses, the record indicates that directives were provided to the IESO by the Minister of Energy, i.e., the Government of Ontario, on December 14, 2015, and December 16, 2016. Those directives specifically relate to negotiations with OEFC NUGs. The directives include, but are not limited to, discontinuing negotiations for New Contracts for NUGs subject to certain criteria⁵.

³ EB-2018-0098 – Atlantic Power Evidence – June 7, 2018 – Paragraph 20

⁴ EB-2018-0098 – Power Workers Union Comment Letter – June 26, 2018 – Page 2

⁵ EB-2018-0098 – Hydro One Interrogatory Responses – May 23, 2018 - Exhibit I, Tab 1, Schedule 6

10. Additionally, the publicly-available 2017 Ontario Long Term Energy Plan (“LTEP”) also discusses the need for more flexibility in the electricity system. The LTEP indicates that *Ontario is moving away from relying on long-term electricity contracts and is enhancing its market-based approach to reduce electricity supply costs and increase flexibility*⁶. To assist in achieving that flexibility, specifically with respect to competitive mechanisms to procure new supply resources, the LTEP goes on to state that *an example of a market-based mechanism that could be used is an incremental capacity auction*⁷ which has been discussed in this proceeding.
11. Therefore, though Hydro One definitively agrees that the promotion of the use of renewable energy sources is a criterion the OEB should review in determining whether this Project meets the public interest, the imperative clarification Hydro One provides is that an appropriate lens needs to be taken on those considerations. Explicitly, these efforts should be done in a manner that is consistent with the current policies of the Government of Ontario. Given the aforementioned references to the Ministerial directives to the IESO and the LTEP, it is clear that this Project does not preclude the promotion of the use of renewable energy sources.
12. APC’s evidence indicates that upgrading the transmission line inhibits the ability of APC facilities to compete in the wholesale power market due to the elimination of a potential source of ancillary revenue for either or both of the APC generation sites⁸. APC also communicates that the potential impacts of the potential closing of either site could have socio-economic impacts. This has also been touched upon by comment letters received in this proceeding. The APC evidence and comment letters request that further consultation activities and/or evidence be provided to assist the Board in ruling on this Application.
13. Hydro One replies that it is clear that no further consultation should be undertaken and no more evidence needs to be provided. Hydro One has read each comment letter and appreciates the concerns expressed around potential job loss, industrial wood waste processing, and other local community impacts should either generation site close but, to clarify the record, the KAR Project that is the subject of this proceeding is not forcing or mandating the closure of any generation site. The IESO Need Assessment articulates that this Project is required to address capacity and voltage performance needs that emerge due to the expiry of local generation facilities contracts⁹. There is no explicit or even implicit requirement that the facilities close, nor does this Project automatically result in the closure of these facilities. In fact, the record states that it is possible that one or both of the NUGs would clear the incremental capacity auction that the IESO is presently

⁶ Ontario 2017 Long-Term Energy Plan: Delivering fairness and choice – October 26, 2017 - Page 35

⁷ Ontario 2017 Long-Term Energy Plan: Delivering fairness and choice – October 26, 2017 - Page 36

⁸ EB-2018-0098 – Atlantic Power Evidence – June 7, 2018 – Paragraph 30

⁹ EB-2018-0098 – Hydro One Pre-filed Evidence – February 5, 2018 – Exhibit B, Tab 3, Schedule 1, Attachment 1 Page 4

designing¹⁰. The need identified by the IESO that drives this Project is that once the contracts do expire, these generation facilities can no longer be relied on to meet local needs¹¹.

14. If the upgrading of the H9K transmission line proposed in the Hydro One KAR Project, in concert with expiration of existing non-utility generator OEFC contracts, results in an APC facility no longer competing in the wholesale power market and proceeding to cease operations, that would be unfortunate, but it would be a purely commercial decision to be made by APC. The OEB should not allow the commercial interests of any individual entity to sway the public interest.

15. Hydro One's view is that the efficient and optimized development of the transmission system is of a higher value than the interests of any single operator within the system. This view aligns with multiple OEB policies that seek to drive and promote economic efficiency consistent with multiple OEB statutory objectives, namely, a.) to protect the interests of customers with respect to prices and b.) to establish cost-effectiveness in the generation, transmission, distribution, sale and demand management of electricity to facilitate the maintenance of a financially viable electricity industry. Based on technical and economic analysis performed by the IESO, the proposed Hydro One KAR Project is the least-cost option for providing the required levels of reliability.

16. Furthermore, the latest iteration of the OEB Filing Requirements made multiple revisions based on OEB experiences in reviewing leave to construct applications. Notably, there is no requirement for any consultation evidence in a leave to construct application.

17. As articulated in the OEB Filing Requirements, duty to consult issues have arisen in multiple leave to construct applications in the past, with significant findings regarding the OEB's role respecting the duty to consult being made in a leave to construct application made by Yellow Falls Power Limited Partnership leave to construct transmission facilities connecting a 16 megawatt ("MW") run-of-the river waterpower project located at Yellow Falls to the transmission system¹².

18. In that proceeding, the OEB Filing Requirements summarizes that the:

"...OEB held that the restriction imposed by s. 96(2) of the Act limited its review to a consideration of price, reliability, the quality of electrical service, and the promotion, where applicable, of the Government of Ontario's issued renewable energy policies. The Board was clear that its decision did not mean that no duty to consult existed in this case. It found, rather, that the Board had no authority to consider these issues. The Board pointed to the

¹⁰ EB-2018-0098 – Hydro One Interrogatory Responses – May 23, 2018 - Exhibit I, Tab 1, Schedule 6

¹¹ EB-2018-0098 – Hydro One Pre-filed Evidence – February 5, 2018 – Exhibit B, Tab 3, Schedule 1, Attachment 1 Page 4

¹² EB-2009-0120

1 *Environmental Assessment process as a suitable forum for the hearing of duty to consult*
2 *issues.*”¹³
3

4 19. Hydro One agrees with the documentation in the OEB Filing Requirements and notes that similar findings have
5 been made in other leave to construct applications since EB-2009-0120, such as Hydro One’s Longwood x
6 Lambton leave to construct application¹⁴. Though these references specifically address indigenous consultation,
7 Hydro One is of the view that it was the OEB’s intent that all consultation activities would be outside the
8 purview of the OEB – it would be hard to fathom that a different requirement would be established for all other
9 consultation other than indigenous consultation. The OEB pointed to the Environmental Assessment process
10 as a more suitable forum for duty to consult issues and the same forum would also address all other
11 consultation. This is evident by the obvious fact that there is absolutely no requirement in the OEB Filing
12 Requirements for any consultation evidence.
13

14 20. Hydro One has completed the Environmental Assessment process for the Hydro One KAR Project. As
15 articulated in Hydro One’s interrogatory responses, the socio-economic impacts of Hydro One’s KAR Project
16 have been reviewed during the Class EA process for this Project and no socio-economic effects were
17 identified¹⁵. Proceeding with the Project is the most cost-effective way to address the needs identified by the
18 IESO.
19

20 21. Hydro One understands that APC is not in agreement with the IESO’s need assessment for this Project. The
21 evidence filed by APC requests that a fair and objective analysis of whether either or both plants could operate
22 in the future in a manner which would enable H9K to stay within its power flow limits when circuit L21S is out
23 of service and the system load is high which would have the effect of eliminating the need for the transmission
24 upgrade project proposed by Hydro One.¹⁶
25

26 22. The request either completely ignores the need evidence provided by the IESO¹⁷ or implies that the IESO was
27 not operating independently in assessing the needs of the Kapuskasing area when it completed its pre-filed
28 evidence for this Application.
29

30 23. The IESO, in determining that a transmission solution is the most cost-effective path forward to address the
31 needs of the area, explored various alternatives that are articulated in the pre-filed evidence of this Application.
32 In Exhibit B, Tab 3, Schedule 1, Attachment 1, the IESO provides three options that were explored to address

¹³ Ontario Energy Board - OEB Filing Requirements for Transmission Applications Chapter 4 Applications Under s. 92 of the Ontario Energy Board Act – July 31, 2014 – Page 17-18

¹⁴ EB-2012-0082

¹⁵ EB-2018-0098 – Hydro One Interrogatory Responses – May 23, 2018 - Exhibit I, Tab 2, Schedule 5

¹⁶ EB-2018-0098 – Atlantic Power Evidence – June 7, 2018 – Paragraph 4

¹⁷ EB-2018-0098 – Hydro One Pre-filed Evidence – February 5, 2018 – Exhibit B, Tab 3, Schedule 1, Attachment 1

the Kapuskasing area needs that will be addressed by Hydro One's KAR Project – two of which are generation alternatives. The generation options, as articulated by the IESO, are reiterated below for ease of reference:

Option 2 — Do not advance work on the H9K replacement, and instead install a new 10 MW generator in the Area for 10 to 15 years. Given the characteristics required – quick start, short lead time – a reciprocating engine is the most cost-effective generating resource for satisfying the need. At the end of the contract term for this generator, and aligning with the end-of-life upgrade of H9K, install a capacitor bank to address voltage needs. This option has an estimated NPV in 2017 dollars of approximately \$43 to \$47 million.

Option 3 — Do not advance work on the H9K replacement, and instead execute a new supply contract at an existing generation facility for at least 10 MW of supply until circuit H9K reaches end-of-life. Due to the size and configuration of existing facilities, the capacity of the lowest-cost option is likely to be approximately 30 MW. At the end of the contract term for this generator, and aligning with the end-of-life upgrade of H9K, install a capacitor bank to address voltage needs. This option has an estimated NPV in 2017 dollars of more than \$38 million.

24. Both generation alternatives explored by the IESO are significantly more expensive than the Hydro One KAR Project.

25. In response to Board Staff Interrogatory 2¹⁸, APC outlines a breakeven analysis for ratepayer benefits that attempts to capture benefits such as capacity, energy and ancillary services. The results of the analysis suggests that, utilizing the assumptions provided by APC, ratepayers would break even with a generation alternative if the annual contract price with Calstock is equal to \$19.19M. If the payments to Calstock are less than \$19.19M/annum, ratepayers would be better off. Hydro One comparatively notes, the total cost of the Hydro One KAR Project is \$21.07M¹⁹. Of the \$21.07M, \$4M of the Hydro One KAR Project cost is associated with installing a 10 Mvar reactor bank at Kapuskasing Transformer Station. The IESO has noted that this work is required regardless of the option selected for meeting the capacity and low voltage needs that are the subject of this evidence²⁰, i.e., a generation or transmission alternative.

26. Before delving into a comparison of these cost differences, Hydro One notes that the APC analysis is predicated on multiple assumptions. Hydro One will not scrutinize and dissect each individual assumption provided by APC to compute the suggested benefits proposed in the aforementioned interrogatory response. Additionally, Hydro One will not comment on whether it is appropriate to include any value for capacity,

¹⁸ EB-2018-0098 – Atlantic Power Interrogatory Responses – June 21, 2018 – Response to Board Staff 2

¹⁹ EB-2018-0098 – Hydro One Pre-filed Evidence – February 5, 2018 – Exhibit B, Tab 7, Schedule 1

²⁰ EB-2018-0098 – Hydro One Pre-filed Evidence – February 5, 2018 – Exhibit B, Tab 3, Schedule 1, Attachment 1, Page 7

energy and/or ancillary services in the IESO's assessment of considered alternatives. Hydro One defers these assessments to the IESO and relies on the IESO's assessment of the need in order to proceed with this Project.

27. Hydro One will mention, however, that the APC analysis in that response is fundamentally flawed because it ignores that whatever costs will be incurred by APC, ultimately recovered from Ontario ratepayers through global adjustment charges, would be in addition to the costs to complete the Hydro One KAR Project. As articulated in the assumptions of APC's interrogatory response, proceeding with any solution that is being recommended by APC only defers the Hydro One KAR Project. Notably, APC's interrogatory response assumptions outline that a contract with APC for five years would mean that "the H9K upgrade would be advanced only 5 years" rather than 10 years²¹. This response, in contrast with the APC evidence that the economics of utilizing one or both generation facilities to meet local reliability needs is likely to result in a lower total cost option for ratepayers,²² illustrates an apparent and costly contradiction.

28. Hydro One's interrogatory responses²³ specifically identify that even if one or both non-utility generators were to clear the incremental capacity auction that the IESO is currently designing, the Hydro One KAR Project would still be necessary. This is the case because although the date of the first capacity auction is still being determined, current forecasting from the 2017 LTEP indicates a need for incremental capacity to emerge in the mid-2020s, resulting in a continued need for the Project between the time of contract expiry in 2020 and the commitment time of a capacity auction.

29. Furthermore, with respect to costs, the APC-specific annual cost associated with obtaining the APC-suggested annual ratepayer benefits is not provided. Hydro One understands that these costs were not divulged because of confidentiality²⁴. APC was invited by Board Staff to provide APC's estimate of costs confidentially in accordance with the OEB's Practice Direction on Confidential Filing Requirements but APC did not provide any costs on the record of this proceeding. Though it is likely that the costs that APC would incur would not significantly differ from the benefits ratepayers will receive, and could even potentially be higher, there is no evidence provided by APC to validate one way or the other how much the APC alternatives will independently cost ratepayers. Hydro One submits that the specific APC cost to defer the Project by five years is not necessary for the OEB to discharge its mandate in this proceeding. Reliable cost evidence on the record for generation alternatives in this proceeding is already provided by the IESO²⁵. Those costs, computed by the IESO via a review of costs for similar contracted facilities in Ontario and through estimates provided by

²¹ EB-2018-0098 – Atlantic Power Interrogatory Responses – June 21, 2018 – Response to Board Staff 2, Page 7 last line of the table

²² EB-2018-0098 – Atlantic Power Evidence – June 7, 2018 – Paragraph 28

²³ EB-2018-0098 – Hydro One Interrogatory Responses – May 23, 2018 - Exhibit I, Tab 1, Schedule 6

²⁴ EB-2018-0098 – Atlantic Power Interrogatory Responses – June 21, 2018 – Response to Board Staff 2, Page 7

²⁵ EB-2018-0098 – Hydro One Pre-filed Evidence – February 5, 2018 – Exhibit B, Tab 3, Schedule 1, Attachment 1 Page 8

independent third parties with no interest in the determination of this proceeding²⁶, are significantly more expensive than the Hydro One KAR Project. And, as noted, regardless of whatever the specific APC costs may ultimately be, they would be in addition to the Hydro One KAR Project which must inevitably be completed to address regional needs. In effect, proceeding with any APC-suggested generation alternative only to defer the Hydro One KAR Project would imprudently charge Ontario ratepayers for the costs of completing two projects when the same need can be effectively addressed by one – the Hydro One KAR Project.

30. Finally, Hydro One will briefly address the comments made by APC regarding the expeditious adjudication requested for this Application. APC suggests that it would be amenable to a short-term generation contract to help alleviate any time constraints with the Hydro One KAR Project and to provide more time for yet another iteration of the need assessment for this Project.

31. Hydro One filed this Application on February 5, 2018, and has requested that an OEB approval be rendered by the end of August 2018²⁷. This equates to six months for the leave to construct application to be reviewed and for the OEB to discharge its mandate in this proceeding. One hundred eighty days, or six months, is the OEB performance standard for processing written electricity leave to construct applications.²⁸ Hydro One's requested expeditious review of this Application, therefore, does not differ from this standard and substantially aligns with the prescribed timelines the OEB has established for reviewing such an application. Hydro One's position remains that a short-term generation contract is unnecessary since Hydro One has the appropriate project controls in place to ensure that the Project is put in service on time and on budget, to the benefit of Ontario electricity ratepayers.

Conclusion

32. The overarching request put forward by APC alleging that yet another fair and objective analysis may in some way have the effect of eliminating the need for the transmission upgrade project is unfounded and would, if pursued, fail to protect the interest of ratepayers for all the reasons mentioned above.

33. Hydro One submits that Hydro One and the IESO have provided clear and substantial evidence establishing the need for the Project and demonstrating that the KAR Project is the preferred solution for addressing the needs identified by the IESO. Hydro One believes that the KAR Project is in the public interest in accordance with s. 96 of the OEB Act and that the Application should be approved as filed.

34. All of which is respectfully submitted.

²⁶ EB-2018-0098 – Hydro One Interrogatory Responses – May 23, 2018 - Exhibit I, Tab 2, Schedule 5

²⁷ EB-2018-0098 – Hydro One Pre-filed Evidence – February 5, 2018 – Exhibit B, Tab 11, Schedule 1

²⁸ <https://www.oeb.ca/industry/applications-oeb/performance-standards-processing-applications>