

OEB Staff Submission

**Wataynikaneyap Power GP Inc. on behalf of
Wataynikaneyap Power LP**

**Application to Establish a Deferral Account and to
Amend an Electricity Distribution Licence
ED-2017-0236**

EB-2018-0267

November 9, 2018

Background

Wataynikaneyap Power GP Inc. on behalf of Wataynikaneyap Power LP (Wataynikaneyap Power) has filed an application seeking the Ontario Energy Board's (OEB) approval to:

- establish a deferral account, pursuant to subsection 78(2) of the *Ontario Energy Board Act, 1998* (the Act), for the purposes of recording and facilitating the future recovery of costs relating to the operation of Wataynikaneyap Power's distribution system
- amend its electricity distribution licence ED-2017-0236, pursuant to subsection 74(1) of the Act, to exempt Wataynikaneyap Power from metering and settlement requirements pertaining to host and embedded distributors stipulated in sections 3.1, 3.2, 4.1, 5.1 and 6 of the Retail Settlement Code (RSC)

For the reasons that follow, OEB staff has no objections to the application.

Deferral Account

The deferral account would be established for the purposes of recording and facilitating the future recovery of costs relating to the operation of Wataynikaneyap Power's distribution system, which is being constructed between Red Lake and the Pikangikum First Nation Reserve and is expected to go into service on November 23, 2018.

Wataynikaneyap Power proposes to record costs it incurs in respect of the distribution system from the date the system goes into service until such time as the system is incorporated into and becomes part of Wataynikaneyap Power's transmission system, which is the subject of a separate application for leave to construct currently before the OEB¹ and will be the subject of a future transmission rate application.

Wataynikaneyap Power's application states that all or substantially all of the capital costs of developing and constructing the distribution system are being paid for through funding from the federal government. Wataynikaneyap Power proposes to use the deferral account to record the operating, maintenance and administration costs for the system, as well as any capital costs that may be incurred after the in-service date which are not paid for by the federal funding. The recoverability of the costs recorded in the account would be subject to a prudence review by the OEB in a future rate proceeding.

OEB staff does not object to Wataynikaneyap Power's proposal to establish the deferral account for the purposes outlined above.

¹ EB-2018-0190

OEB staff agrees that the OEB's criteria for establishment of a deferral account – causation, materiality and prudence – are met, for the following reasons:

- *Causation: The forecasted expense must be clearly outside of the base upon which revenue requirement(s) were derived.*

Given that this account is to track costs of a brand new asset for a new delivery entrant in the electricity sector, the causation test is satisfied. The applicant has no current rates in place.

- *Materiality: The forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the transmitter. Otherwise they must be expensed in the normal course and addressed through organizational productivity improvements.*

Wataynikaneyap Power's revenue requirement has not yet been determined. However, the amounts to be recorded in the proposed deferral account will reflect all of the costs to service this distribution system and will essentially make up the entire distribution system revenue requirement.

- *Prudence: The nature of the costs and forecasted quantum must be reasonably incurred, although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant must provide evidence demonstrating why the option selected represents the cost-effective option (not necessarily least initial cost) for ratepayers.*

OEB staff notes that Wataynikaneyap Power has a related application seeking leave to construct the broader transmission project and thus clearly has put a plan in place as to how it will incur costs. The Government of Ontario has recognized the need for the broader transmission system project, of which the distribution line to Pikangikum comprises an interim step, by declaring it to be a priority project under section 96.1 of the Act. In addition, as Wataynikaneyap Power notes, it is required to build the transmission system project as a condition of its transmission licence. The final determination of the prudence of the amounts recorded will be made at the time of disposition of the account.

OEB staff also notes that the request for a deferral account in this case is similar to Wataynikaneyap Power's request in EB-2016-0262 for the establishment of an account to track development costs in connection with the broader transmission system project. That request was approved.

OEB staff is of the understanding that any capital costs to be recorded in this new deferral account are only those that will be incurred subsequent to the in-service date of the distribution system and will not include any amounts initially recorded in the deferral

account established in EB-2016-0262. Wataynikaneyap Power may wish to confirm this in its reply submission.

OEB staff would, however, suggest revising the draft accounting order prepared by Wataynikaneyap Power (Appendix B to the application), so that the sub-accounts established are in conformance with the Accounting Procedures Handbook, Article 220 pp.16-17. Specifically, OEB staff suggests that the draft accounting order establish separate 1508 sub-accounts to record the carrying charges associated with the operating, maintenance and administrative (OM&A) costs and the capital costs.

OEB staff's proposed revisions to the draft accounting order are included as Appendix A to this submission and shown in red text.

Request for Code Exemptions

According to Wataynikaneyap Power's application, the proposed exemptions from the RSC are warranted because of the unique situation whereby Wataynikaneyap Power will be both an embedded distributor in relation to Hydro One Networks Inc. (HONI) and a host distributor to its sole customer, Hydro One Remote Communities Inc. (HORCI). The exemptions would allow for all costs other than Wataynikaneyap Power's own distribution rates to be settled directly between HONI and HORCI, as if HORCI were directly connected to HONI's distribution system.

OEB staff does not object to Wataynikaneyap Power's request to have its electricity distribution licence amended to exempt Wataynikaneyap Power from the responsibilities of a host distributor contemplated under the RSC. Wataynikaneyap Power's request is reasonable given the unique circumstances. OEB staff understands, based on information provided by HONI in its letter to the OEB dated September 19, 2018 (see Appendix B), that the other parties directly affected by the proposed arrangement, namely HONI, HORCI and the IESO, are amenable to the arrangement. OEB staff anticipates that if anything has changed since that letter was sent, those parties will advise the OEB (in the OEB's Notice of Hearing and Procedural Order No. 1, the OEB specifically invited those parties to advise the OEB of any concerns).

Licence Name Amendment

In the covering letter filed with the application, Wataynikaneyap Power indicated that since its electricity distribution licence ED-2017-0236 was issued, its general partner's name has changed from 2472883 Ontario Limited to Wataynikaneyap Power GP Inc. Although not requested in the application, OEB staff recommends that the OEB take this opportunity to amend the licence to reflect the name change.

All of which is respectfully submitted.

Appendix A

Accounting Order

DRAFT ACCOUNTING ORDER

WATAYNIKANEYAP DISTRIBUTION SYSTEM DEFERRAL ACCOUNT

Wataynikaneyap Power GP on behalf of Wataynikaneyap Power LP (“WPLP”) shall establish the following deferral account: Account 1508, Other Regulatory Assets for the purpose of recording costs incurred in relation to the Pikangikum System from the in-service date of the Pikangikum System up to the date the Pikangikum System is converted into and thereafter forms part of WPLP’s transmission system, or such other time as Wataynikaneyap Power may request and the OEB may order. The deferral account shall be divided into ~~six two~~ sub-accounts:

1. Account No. 1508.004, Other Regulatory Assets, sub-account: Wataynikaneyap Distribution System OM&A Costs
2. Account No. 1508.005, Other Regulatory Assets, sub-account: Wataynikaneyap Distribution System Capital Costs
3. Account No. 1508.006, Other Regulatory Assets, sub-account: Depreciation Expense
4. Account No. 1508.007, Other Regulatory Assets, sub-account: Accumulated Depreciation
5. Account No. 1508.008, Other Regulatory Assets, sub-account: Wataynikaneyap Distribution System OM&A Carrying Charges
6. Account No. 1508.009, Other Regulatory Assets, sub-account: Wataynikaneyap Distribution System Capital Carrying Charges

The amounts recorded in the above accounts shall be brought forward for disposition in a future proceeding.

1. **Account No. 1508.004, Other Regulatory Assets, sub-account: Wataynikaneyap Distribution System OM&A Costs**

| USofA # | Account Description |
|-----------------|---|
| Debit: 1508.004 | Other Regulatory Assets, sub-account: Wataynikaneyap Distribution System OM&A Costs |
| Credit: 2205 | Accounts Payable |

To record OM&A costs incurred in relation to the Pikangikum System.

| USofA # | Account Description |
|---------|---------------------|
|---------|---------------------|

Debit: 1508.004008 Other Regulatory Assets, sub-account: Wataynikaneyap Distribution System ~~OM&A Costs~~ OM&A Carrying Charges

Credit: 6035 Other Interest Expense
 To record interest improvement on the principal balance of the "Wataynikaneyap Distribution System OM&A Costs" subaccount.

2. Account No. 1508.005, Other Regulatory Assets, sub-account: Wataynikaneyap Distribution System Capital Costs

USofA # Account Description

Debit: 1508.005 Other Regulatory Assets, sub-account: Wataynikaneyap Distribution System Capital Costs

Credit: 2205 Accounts Payable

To record capital costs incurred in relation to the Pikangikum System, but not including capital costs paid for through funding from Indigenous and Northern Affairs Canada (including its successors). Depreciation on the capital costs recorded will be recorded as appropriate.

USofA # Account Description

Debit: 1508.005009 Other Regulatory Assets, sub-account: Wataynikaneyap Distribution System ~~Capital Costs~~ Capital Carrying Charges

Credit: 6035 Other Interest Expense

To record interest improvement on the principal balance of the "Wataynikaneyap Distribution System Capital Costs" subaccount.

USofA # Account Description

Debit: 1508.006 Other Regulatory Assets, sub-account: Pikangikum System Depreciation Expense

Credit: 1508.007 Other Regulatory Assets, sub-account: Pikangikum System Accumulated Depreciation

To record depreciation expense on in-service assets.

Appendix B

Letter Provided By HONI to the OEB

**Re: Settlement Agreements with Pikangikum
First Nation Community**

Hydro One Networks Inc.

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Frank D'Andrea

Vice President, Regulatory Affairs & Chief Risk Officer

BY COURIER

September 19, 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,

Re: Settlement Agreements with Pikangikum First Nation Community

This letter is to inform the Board of certain settlement arrangements that are planned with respect to providing electricity service to the Pikangikum First Nation community.

Pikangikum is currently an off-grid First Nations remote community that operates an Independent Power Authority (“IPA”) to distribute and generate power to its customers. This community has struggled with running its power system, and there have been numerous media articles confirming the dire situation in Pikangikum.

Pikangikum requested distribution services from Hydro One Remote Communities Inc (“Remotes”) as a “grid-connected” remote community. In May, 2018, an agreement to transfer the Pikangikum distribution assets to Remotes was signed by Remotes, the Minister of Indigenous Services (“INAC”), the Ontario Electricity Finance Corporation, Pikangikum First Nation and its IPA, Eshkotay Wayab. Among other things, the agreement also establishes that Remotes will provide Pikangikum service consistent with its Distribution Licence and its Conditions of Service.

The provision of distribution service to Pikangikum was discussed in Remotes’ recent Cost of Service application (EB-2017-0051) and was included in the Remotes Distribution System Plan. Remotes’ rates for customers of grid-connected remote communities have been approved by the OEB.

As part of its proposal to build transmission connections to various communities in the far north, Wataynikaneyap Power (“Watay”), along with the community of Pikangikum, INAC and the provincial governments, developed a plan for early connection of the community of Pikangikum through a distribution line connection.

The federal government announced funding to construct the line in August, 2017, and construction of the 116km line that will serve Pikangikum is expected to be completed by the end of 2018. Though this line is being built to a 115 kV transmission standard, it will initially be operated at 44 kV and will connect to a Hydro One distribution 44kV line near Red Lake. At a future date, this line will be disconnected from the 44 kV distribution line and reconnected to a Hydro One 115 kV transmission line.

In 2017, Watay filed an application for a distribution license to operate its new distribution line (EB-2017-0236). Watay's application identified its unique situation of being a host distributor to Remotes, while also being an embedded distributor of Hydro One Networks Inc ("Networks"), and hence not being a wholesale market participant that settles directly with the IESO. Watay's application indicated that it will not be in a position to fulfill all of the responsibilities of a host distributor contemplated under the Distribution System Code and Retail Settlements Code.

Given the urgency of connecting Pikangikum to the grid, Remotes, Networks and Watay have agreed to adopt an interim settlement process that efficiently and cost effectively manages the payments associated with delivering electricity to the community of Pikangikum via the Watay line.

Networks proposes to settle with the IESO as it normally would, given that it is the transmission-connected Distributor, and settle with Remotes as it would any other wholly embedded distributor. The settlement with Remotes will include all applicable charges such as energy, Global Adjustment, regulatory, delivery (i.e. as an ST rate class customer), and tax. Settlements will be based on the interval meter readings for the energy flowing to the Watay line at its connection point with Networks' 44 kV M6 feeder out of Red Lake TS. This ensures that Networks is held whole for all losses on the Watay line plus the losses on Remotes' distribution system. The same payment terms and conditions would apply to Remotes as any other Distributor. This settlement arrangement would be in effect until the Watay line is connected to Hydro One's 115 kV transmission system. At that time, Watay will become a Transmitter, and Remotes must become a wholesale market participant with all related settlements taking place directly with the IESO.

This settlement arrangement has been discussed with the IESO, who indicated that they do not have any concerns with the proposed arrangement provided all parties are in agreement with the settlement. A tri-party settlement agreement between Hydro One, Remotes and Watay will be prepared to document the proposed settlement arrangement, including the obligation for Remotes, as an embedded Distributor, to provide Networks the information necessary to complete the monthly IESO declarations for items such as GA, TOU RPP, embedded generation, etc. as applicable.

It is Hydro One's understanding that Watay will bill Remotes directly for the cost of providing their distribution services to Pikangikum, once their distribution rates are approved by the OEB.

Please feel free to contact Mr. Henry Andre (416-345-5124, henry.andre@hydroone.com) if you have any questions regarding the information provided above.



Sincerely,

ORIGINAL SIGNED BY FRANK D'ANDREA

Frank D'Andrea

CC

Brian Hewson (Vice President - Consumer Protection & Industry Performance)

Greg Beharriell (greg.bharriell@cnpower.com)

Kraemer Coulter (Managing Director, Remotes)