OEB Staff Interrogatories

**Hydro One Networks Inc. (HONI)
Allocation of Construction Costs of the Supply to
Essex County Transmission Reinforcement Project (SECTR)
EB-2019-0120
June 6, 2019**

Staff-1

Ref: 2019 HONI Application, February 28, 2019, page 2
Ref: 2013 HONI Application, EB-2013-0421, OPA Supporting Evidence, page 9[1]

In the current application, Hydro One Networks Inc. (HONI) notes the costs of the Project have been attributed between the triggering customer and the network pool utilizing a proportional benefit approach, and proposes that the Project cost be allocated in proportion to what the triggering customer and ratepayers would have respectively contributed towards the cost of separate solutions to address each need. Staff notes that the methodology therefore uses the proportional costs as a proxy for the proportional benefits.

- In the current application, HONI has estimated that **72.6%** of the benefits will accrue to the triggering load customer (Hydro One Distribution) and **27.4%** of the benefits will accrue to all ratepayers.
- In HONI's 2013 SECTR application, it was estimated that **77.5%** of the benefits would accrue to the triggering load customers and **22.5%** of the benefits would accrue to all ratepayers.

Please explain why HONI believes the benefits to all ratepayers have increased significantly – 27.4% vs. 22.5% – and the benefits to Hydro One Distribution have declined substantially, since the EB-2013-0421 proceeding.

For convenience, the OPA (now IESO) supporting evidence from the initial HONI SECTR application, which includes the initial cost estimates (as provided by HONI), can be found at the link set out below:

Cost Allocation Evidence - SECTR - IESO

[1] Recommended Cost Allocation Treatment for the Supply to Essex County Transmission Reinforcement, Ontario Power Authority, January 2014.

Staff-2

Ref: 2019 HONI Application, page 2
Ref: 2013 HONI Application, EB-2013-0421, OPA Supporting Evidence, page 9
Ref: HONI response to SEC interrogatory #3, EB-2013-0421, Exh I-P2-6-3

The application notes that, in determining the proportional benefit and the related attribution of costs, the methodology is based on a scenario whereby the network need and triggering customer need are addressed by individual investments to ascertain the proportion each contributes to the aggregate cost of those investments. The table then shows how the relative proportions are applied to the total cost of the integrated solution — "HONI SECTR Project "— that addresses both needs in order to allocate the costs.

According to a HONI interrogatory response to SEC (#3) in the initial SECTR proceeding, the costs associated with the avoided network need investments were provided by HONI to the OPA. HONI noted that their cost estimates were "not based on detailed engineering but on past experience with such projects."

- In HONI's 2013 application, the *estimated* cost of the investment that would address the *customer* need was $77.4 million. In HONI's current application, the *actual* cost of $54.3 million was used for cost allocation purposes.

- Investments to address the *network* need included 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 HONI's initial EB-2013-0421 application, the *estimated* cost associated with those two investments was $20.5 million. In the current EB-2019-0120 application, HONI has used the same *estimated* cost – $20.5 million – for cost allocation purposes.

Given the above, please clarify the following:

1) Why did the estimated cost of the two proxy investments that would have addressed the *network* need remain exactly the same after about five years, while the investment that addresses the customer need declined by about 30%?
2) Please provide any documents to support the cost estimate of $20.5 million and identify the similar projects that were used as benchmarks to reflect past experience.
3) Did HONI re-estimate the costs associated with the two avoided network investments and arrive at the same figure of $20.5 million?
4) If the response to (3) above is no, please provide an updated cost estimate and explain how it was determined, including identifying any similar projects that were

used that are *incremental* to those that were used to arrive at the estimate in the initial case.

Staff-3

Ref: IESO's April 26th letter

In the IESO's April 26th letter, a concern was raised related to using new actual construction cost information that results in a different cost allocation relative to the original cost allocation that existed at the time of the LTC determination. Section 6.3.18A of the TSC 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." As such, on a go forward basis, the cost estimates related to addressing both the network need and customer need that exist when the application for leave to construct is approved will be used for cost allocation purposes. Unlike provisions in the TSC related to economic evaluations, neither section 6.3.18 nor 6.3.18A refers to true ups to actuals. Within that context, why does HONI believe it is appropriate to calculate the proportional benefit (i.e., % allocations) based on the actual SECTR cost, rather than the initial cost estimate, in this case?

Staff-4

Ref: EB-2013-0421 Procedural Order No. 8 and Accounting Order – Schedule A

In relation to the EB-2013-0421 proceeding, the Accounting Order was outlined in Schedule A of Procedural Order No. 8. Please confirm that HONI recorded the accounting entries for the SECTR project in accordance with that Accounting Order. If there were any deviations from the approach set out in the Accounting Order, please explain each deviation and provide justification for each.