

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 approving just
and reasonable rates and other charges for electricity
distribution to be effective January 1, 2020.

REVISED CAPITAL INVESTMENT PLAN
2018-2022

1 **1 INTRODUCTION**

2 On March 31, 2017, Hydro One Networks Inc. (“**Hydro One**”) filed a Custom Incentive
3 Rate application (EB-2017-0049) (the “**Application**”) seeking approval of its distribution
4 rates from January 1, 2018 to December 31, 2022. The Ontario Energy Board (the
5 “**OEB**”) released its decision on March 7, 2019 (the “**Decision**”) approving Hydro One’s
6 Application proposed revenue requirement subject to, among other things, a number of
7 capital expenditure reductions in respect of which the OEB directed Hydro One to
8 provide “a revised capital investment program ... explaining how the OEB-imposed
9 reductions ... were accommodated in line with the OEB findings.”¹ This report, filed
10 with Hydro One’s first annual update, fulfills this requirement. This report is filed on a
11 stand-alone basis, separate from the annual update filing, consistent with the Board’s
12 Directions.

13 14 **2 REVISED CAPITAL INVESTMENT PROGRAM**

15 Below is Hydro One’s revised capital plan. Revisions to Hydro One’s capital investment
16 plan result from two main factors: (1) reductions in capital spend levels approved by the
17 OEB; (2) changes in circumstances that have arisen since the time that the original
18 applied-for capital investment plan was filed and presented to the OEB. As discussed
19 further below, this second category includes changes in investment priorities including
20 increased expenditures in non-discretionary work driven by new agricultural businesses
21 and new local area growth.

22
23 The intent of this revised capital investment plan is to provide the OEB with the most up
24 to date information so that this plan may be used a baseline for future reporting.² The up-
25 to-date information is an input to Hydro One’s capital planning program which is

¹ Decision, pp. 71-72, which states that Hydro One should: “Provide a revised capital investment program as part of its first annual update explaining how the OEB-imposed reductions in this Decision and Order were accommodated in line with the OEB findings. This report is to be filed on a standalone basis to be used as a baseline for future reporting and will not be adjudicated during the annual update rate proceeding.”

² Decision, p. 72

1 reviewed and revised each year using the most current system and customer needs (rather
2 than using historic information that is out of date). It is reasonable to expect that
3 subsequent changes during the rate period may occur to address and accommodate
4 ongoing changes in system and customer needs.

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Table 1 – Proposed Capital Spending Summary (\$ millions)

Category	SDOC	SDOC Breakdown	Test Years (As Filed)								Test Years (Decision)						Variance
			2018	2019	2020	2021	2021	2022	2022	5 Year Total	2018	2019	2020	2021	2022	5 Year Total	5 Year Total
							w/out LDCs		w/out LDCs	w/out LDCs				w/out LDCs	w/out LDCs	w/out LDCs	w/out LDCs
System Access	Sustaining Capital	Lines	21.7	22.0	22.2	22.6	22.4	22.8	22.7	111.0	20.4	16.6	17.7	17.7	17.9	90.3	-20.7
		Meters	18.9	19.4	19.7	20.5	19.9	21.1	20.4	98.3	26.7	16.6	25.9	25.3	16.3	110.9	12.6
	Development Capital	Connections, Upgrades	109.9	112.9	115.7	120.0	118.8	123.2	122	579.2	121.2	108.9	105.6	104.6	105.8	546.1	-33.2
		Generation Connections	4.1	3.4	3.3	2.9	2.7	3.0	2.7	16.2	6.7	3.8	2.6	1.7	1.4	16.1	-0.1
		Wholesale Revenue Meters	0	0	0	0	0	0	0	0	0.1	2.0	1.6	1.7	1.7	7.0	7.0
System Access Total			154.6	157.6	160.9	165.9	163.8	170.0	167.8	804.7	175.1	147.9	153.4	150.9	143	770.4	-34.3
System Renewal	Sustaining Capital	Lines	199.8	245.7	263.1	279.2	274.1	283.7	278.6	1261.3	183.2	161.7	181	184.8	201.6	912.3	-349.1
		Meters	0	0	0	1.4	1.4	78.5	78.5	79.9	0	0	0	0	0	0	-79.9
		Stations	28.3	45.9	51.1	52.9	52.0	54.0	53.1	230.4	26.8	33.6	26.3	37.8	46.4	170.9	-59.4
	Development Capital	System Capability Reinforcement	20.5	27.1	22.4	29.0	29.0	34.9	34.9	134.0	9.7	7	15	14.8	8.7	55.1	-79.0
System Renewal Total			248.6	318.7	336.7	362.5	356.5	451.1	445.1	1705.6	219.7	202.3	222.2	237.3	256.7	1138.3	-567.4
System Service	Sustaining Capital	Lines	7.1	7.3	7.4	7.7	7.6	7.8	7.7	37.2	18.7	12.4	13.2	13.2	13.3	70.9	33.7
		Meters	6.0	6.0	5.9	5.8	5.8	5.8	5.8	29.5	0.8	1.7	0.1	0.1	0.1	2.8	-26.7
		Stations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Development Capital	System Capability Reinforcement	63.4	78.4	72.3	64.6	63.4	55.9	54.7	332.2	46.3	109.1	116	130.8	89.5	491.7	159.5
		Operations	0	0	0	0.7	0.7	0	0	0.7	0	0	0	0	0	0	-0.7

	Operations Capital	Smart Grid Pilot	5.0	0	0	0	0	0	0	5.0	13.2	0.9	0	0	0	14.1	9.1
System Service Total			81.6	91.6	85.6	78.8	77.6	69.5	68.2	404.6	79.1	124.0	129.4	144.1	103	579.5	174.9
General Plant	Development Capital	System Capability Reinforcement	8.4	3.1	0	0	0	0	0	11.4	2.9	0.2	0	0	0	3.1	-8.3
	Operations Capital	Operations	26.9	42.7	5.8	5.4	5.4	8.2	8.2	89.0	5.3	35.6	34.3	19.9	5.4	100.5	11.5
	Capital Common Corporate Costs and Other Costs	Cornerstone	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		Facilities & Real Estate	34.6	44.1	37.9	36.2	36.2	33	33	185.8	13.7	17.6	39.4	22.5	45.2	138.5	-47.3
		Information Technology	44.8	47.8	43.5	34.7	34.7	37.5	37.5	208.4	52.3	61.6	47.2	24.6	21.6	207.3	-1.1
		Other	-3.5	-4.3	-6.5	-8.3	-8.3	-8.7	-8.7	-31.2	-1.7	0	0	0	0	-1.7	29.6
		Transport and Work, and Service Equipment	32.1	35.1	35.4	35.6	35.6	35.8	35.8	174.1	18.1	27.8	29.4	28.3	28.2	131.7	-42.4
General Plant Total		143.3	168.5	116.2	103.7	103.7	105.9	105.9	637.5	90.7	142.8	150.3	95.3	100.4	579.5	-58.0	
Total		628.1	736.4	699.3	711	701.6	796.5	786.9	3552.4	564.5	617.1	655.3	627.6	603.2	3067.7	-484.7	
HOAA Reductions		-3.6	-3.7	-3.7	-3.8	-3.8	-3.9	-3.9	-18.7	-	-	-	-	-	-	-	18.7
Grand Total		624.5	732.7	695.6	707.2	697.8	792.6	783.0	3533.7	564.5	617.1	655.3	627.6	603.2	3067.7	-466.0 ³	

³ In Hydro One's DRO Reply Submission, Table 1 on page 6 presents a total variance of 503.6 million. When normalizing the starting point for \$18.7 million related of HOAA reductions and \$18.9 million for Acquired Utilities the variance is \$466.0 million.

1 In the Decision, the OEB ordered a number of capital expenditure reductions and directed
2 Hydro One to address “the issues that are raised in this Decision and Order”⁴ when
3 implementing the capital reductions. While the OEB concluded that “Hydro One is in the
4 best position to utilize its prioritization and optimization tools to accommodate this
5 reduction” it also made specific findings in respect of the system renewal category
6 generally including the pole replacement program, as well as the smart meter replacement
7 program.

8
9 Following its review of the Decision, Hydro One addressed overall capital spending
10 reductions by using its risk-based investment prioritization and optimization process to
11 identify work to be deferred within the test period. Hydro One applied this process to the
12 most up-to-date information available, including developments identified in and related
13 to the broader system planning processes. Such development projects, as discussed
14 below, arose in the two years since Hydro One filed its Application.

15
16 Consistent with the OEB’s findings, the capital reductions are focused mainly on the
17 System Renewal category including the pole replacement program.⁵ There are also
18 increases in System Service spending which reflect development projects that are largely
19 non-discretionary and are required to comply with the Distribution System Code (such as:
20 feeder development in Leamington area to address increasing demand). The changes in
21 these two categories are further explained below.

22 23 ***System Service***

24 Under the revised capital investment plan, spending in the System Service category
25 increased over the five year rate period by \$175 million. The increase in System Service

⁴ Decision, p. 76

⁵ In respect of the OEB’s findings (Decision at p. 75) regarding Hydro One’s smart meter program, Hydro One will follow the OEB’s direction to explore with the manufacturer or other third parties the basis for the estimated service life of its existing meters, identify supporting data and assess other relevant information before making investments in the smart meter program. An update in this regard will be provided as part of Hydro One’s annual updates and at its next rebasing.

1 investments includes customer-driven development projects in the Chatham-Kent,
2 Leamington and Kingsville Areas arising from unanticipated load growth driven by
3 significant and unprecedented new agricultural businesses in some of these areas. The
4 nature of the growth in the Leamington area is illustrated by way of example in the
5 January 31, 2019 hand-off letter from the IESO to Hydro One which notes among other
6 things that growth in this area is driven by “rapid expansion in the greenhouse sector and
7 aggressive adoption of artificial crop lighting, primarily in the winter months, and is
8 forecast to continue beyond 2022.”⁶

9
10 The customer applications that necessitated these investments were not received until
11 well after the original rate filing submission. The remainder of the increase in non-
12 discretionary projects which were needed to address local area load growth needs not yet
13 identified at the time of filing. Hydro One notes the largely non-discretionary nature of
14 this work, which must be accommodated under the Distribution System Code.

15 16 ***System Renewal***

17 Under the revised capital investment plan, spending in the System Renewal category
18 decreased over the five year rate period by \$567 million. Hydro One reduced the System
19 Renewal category in a manner consistent with areas highlighted in the Decision and
20 focused on: wood pole replacements, distribution station refurbishments, distribution
21 lines sustainment initiatives and smart meter replacements. Since these reductions were
22 made using Hydro One’s prioritization and optimization methodology, investments in the
23 areas that most efficiently mitigate risk have not been impacted.

24
25 In respect of the proposed smart meter replacement program, Hydro One is exploring the
26 estimated service life of the smart meters and has delayed the replacement program to the
27 next rate application. It will include a status update at its next rebasing application.

⁶ The January 31, 2019 hand-off letter from the IESO to Hydro One may be reviewed here:
http://www.ieso.ca/-/media/Files/IESO/Document-Library/regional-planning/Windsor-Essex/Switching-Station-in-the-Leamington-Area_Signed_Jan-31-2018.pdf?la=en