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**Joanne Richardson**  
Director – Major Projects and Partnerships  
Regulatory Affairs

BY EMAIL, RESS AND COURIER

February 07, 2020

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

Dear Ms. Long,

**EB-2018-0117 – Hydro One Networks Inc.'s Section 92 – Barrie Area Transmission Upgrade Project – Hydro One Presentation**

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Please find attached a presentation that Hydro One Networks Inc. (“Hydro One”) intends to give at the beginning of the Technical Conference scheduled on February 11<sup>th</sup>, 2020, regarding its s.92 Barrie Area Transmission Upgrade Project application.

An electronic copy of this has been filed through the Ontario Energy Board’s Regulatory Electronic Submission System (RESS).

Sincerely,

ORIGINAL SIGNED BY JOANNE RICHARDSON

Joanne Richardson



# Barrie Area Transmission Upgrade - BATU

Technical Conference Presentation

Date: February 11th, 2020



# Summary of Application

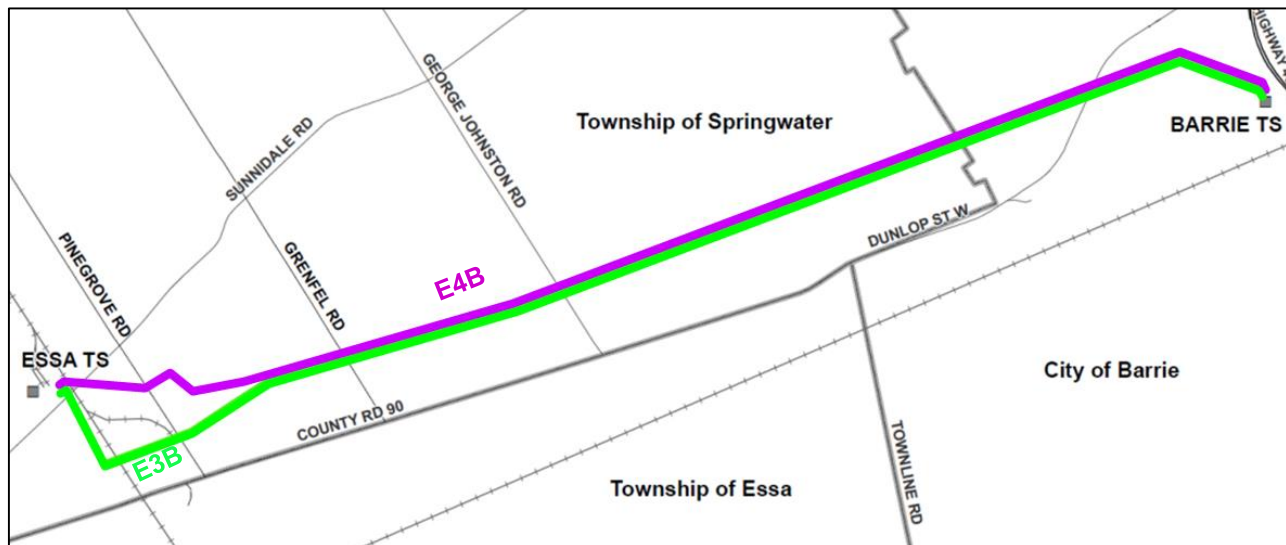
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Hydro One is seeking approval to:

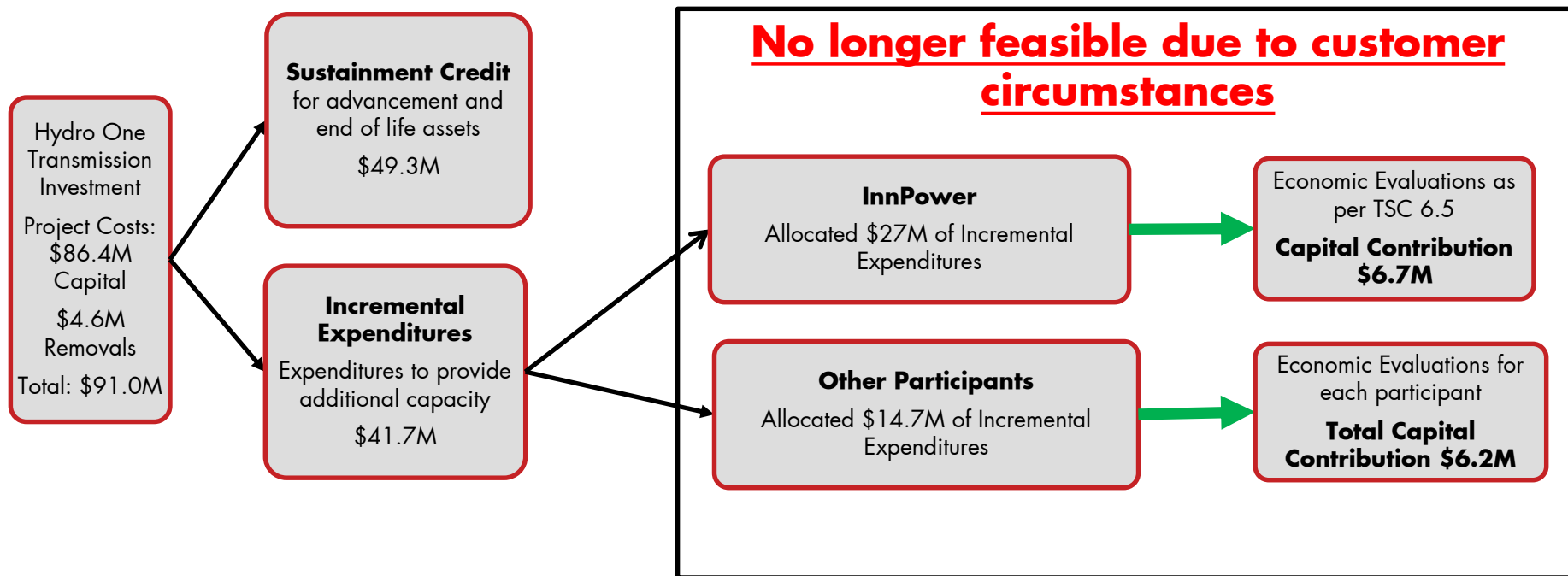
- upgrade two 115 kV transmission line facilities and to upgrade Hydro One's existing Essa Transformer Station ("Essa TS") and Barrie Transformer Station ("Barrie TS").
- extend the customer's capital contribution period to 15 years.
- use the 15-year loan methodology to record project costs.
- establish of a new generic variance account titled "Capital Contribution Recovery Differential Account" to record the variance in revenue requirement resulting from a delay in the capital contribution payment received.

# Technical Proposal

- The 2014/15 South Georgian Bay/Muskoka Regional Planning Study concluded that there are capacity needs and equipment end-of-life (EOL) needs at Barrie TS, Essa TS, and on circuits E3B and E4B.
- This project will address the EOL and capacity needs while also providing a strong backbone for system expansion in the Barrie/Innisfil area.
- Proposed Project
  - 115kV circuits E3B and E4B will be replaced by a new 230 kV double-circuit line and will supply the newly upgraded Barrie TS.
  - A new 230-44 kV station at Barrie TS.
  - At Essa TS: two new 230 kV line connections will be constructed; and two auto-transformers and the EOL 115 kV switchyard will be removed as they will no longer serve any purpose.

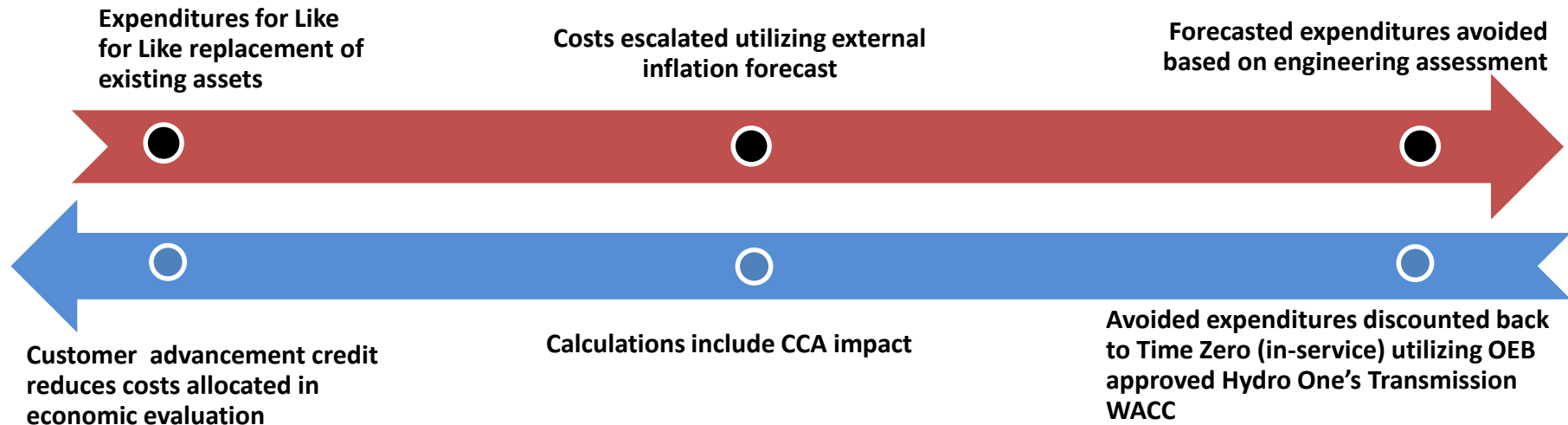


# Cost Allocation and Capital Contribution Integrated Regional Resource Plan



- Scenario outlines the pre-application assumptions in the IRRP.
- As one of three participants, InnPower is allocated costs in proportion to total incremental capacity required by all participants (calculated by rate pool).
- This scenario, InnPower is contracting only 65% of the incremental capacity indicated by all three benefitting participants. Therefore, cost responsible for only 65% of incremental expenditures to provide incremental capacity.

# Sustainment Credit: Advancement

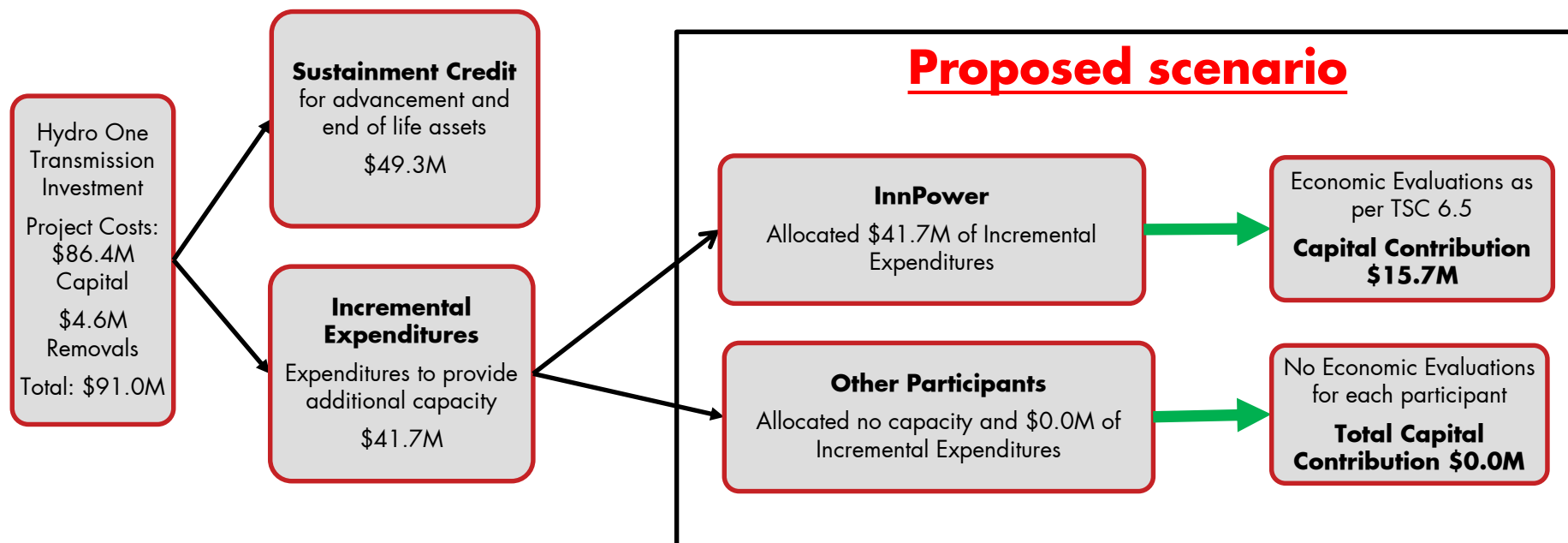


- \$49.3M of the project expenditures are allocated to rate payers as end-of-life replacement and advancement credit.
  - Calculation completed in accordance with Transmission System Code of 6.5.2 & 6.7.2A.
  - Each rate pool was calculated independently.
  - Details and results provided in B-7-1 of the application.
  - InnPower is paying remaining useful life of existing assets (NBV).

\$M *Numbers may not add due to rounding	Total Cost	End of Life Sustainment in 1 -3 Years	Advancement of Sustainment Credit	InnPower Responsibility
Transformation Line Facilities	23.4	(1.6)	(1.8)	20.0
Transformation Facilities (Barrie TS)	36.7	(25.6)	-	11.2
Network Facilities (Essa TS)	30.9	(14.5)	(5.9)	10.5
<b>Total</b>	<b>91.0</b>	<b>(41.7)</b>	<b>(7.7)</b>	<b>41.7*</b>



# Cost Allocation & Capital Contribution as per B-9-1



- Other participants were not able to commit to their forecasts from the Integrated Regional Resource Plan in a Customer Connection Recovery Agreement.
- InnPower capacity requirement remains unchanged but is 100% cost responsible for incremental expenditures; allocated additional \$14.7M of incremental expenditures to InnPower's customer responsibility (from \$27.0M to \$41.7M) that was previously allocated to other participants (IRRP scenario).
- Load forecast unchanged; capital contribution is \$15.7M (increase of \$9.0M). B-9-1.

# Capital Contribution Recovery Differential Account

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- As per TSC 6.3.19, a distributor at its discretion can pay a capital contribution in installments over 5 years and pay Board's prescribed construction work in progress (CWIP) rate on unpaid balance. Longer deferrals require OEB approval.
  - InnPower has requested OEB approval to defer the capital contribution over 15 years.
- As per the August 23, 2018 Notice of revised proposal to amend a Code (EB-2016-003), the OEB stated:

"The outstanding balance will remain in the transmitter's rate base until the distributor pays the full cost for which it is responsible, and will continue to attract the full return on rate base."
- Standard rate making mechanism for capital contributions (and true ups) is to reduce the rate base by lowering the Net Book Value of the asset (referred to Net Book Value methodology in B-9-1).
- Hydro One is unable to forecast the timing and number of customers who will elect to defer capital contributions. Any uptake from distributors has not been reflected in Hydro One's current Transmission Rate Filing (EB-2019-0082).

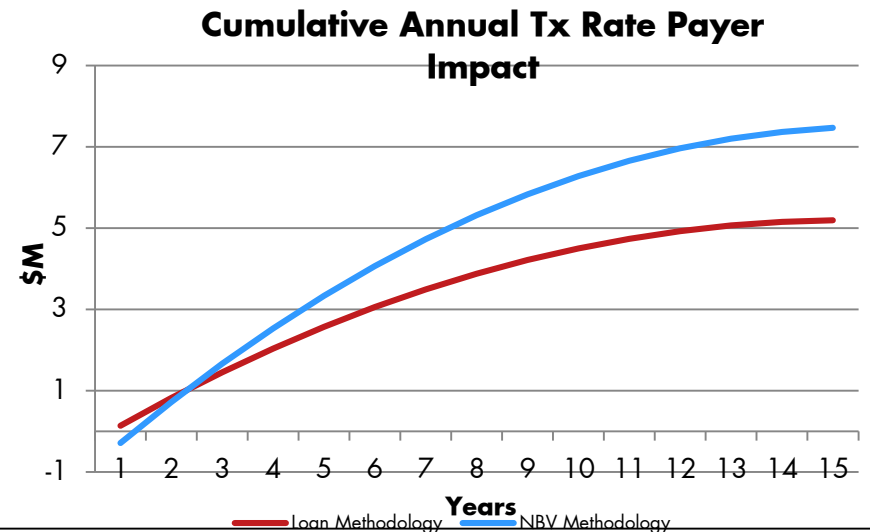


# Capital Contribution Recovery Differential Account

- Hydro One has requested a regulatory account to “continue to attract the full return on rate base” on deferred capital contributions
  - Hydro One has proposed treating the deferral of capital contribution as a “loan”.
  - Proposal is to reduce Hydro One NBV of assets by the full capital contribution payable at assets in-service date. The capital contribution payable will be tracked in a sub-account of the variance account.
  - Deferred capital contribution receivable will be reduced by the annual payment.
  - “To attract the full return on rate base”, only the difference between the prescribed CWIP paid by InnPower and Hydro One’s allowed return will accrue in the variance account to be recovered in a future rate hearing.
- Hydro One has proposed an alternative methodology to utilize a regulatory account (Loan Methodology) to minimize impact on Transmission rate payers
  - Utilizing standard rate making mechanisms increases the corporate tax and depreciation recovery to transmission rate payers.
  - Avoids double recovery on depreciation as InnPower depreciates the capital contribution.

## Tx Rate Payer impact comparison over 15 year deferral period

\$M	Hydro One Proposed	Standard Methodology
Cost of Capital	\$6.9	\$5.1
Depreciation	\$ -	\$2.2
Corporate Taxes	\$1.4	\$3.3
Interest from InnPower	\$(3.2)	\$(3.2)
<b>Impact</b>	<b>\$5.2</b>	<b>\$7.5</b>



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