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BY COURIER

February 28, 2020

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: EB-2018-0117 – Hydro One Networks Inc.'s Section 92 – Barrie Area Transmission Upgrade Project – Argument in Chief

In accordance with Procedural Order No. 3, please find enclosed Hydro One Networks Inc.'s Argument in Chief with repect to the Leave to Construct Application for its Barrie Area Transmission Upgrade Project.

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

cc: IESO, InnPower

ARGUMENT IN CHIEF OF THE APPLICANT, HYDRO ONE NETWORKS INC.

EB-2018-0177

1. On October 11, 2019, Hydro One Networks Inc. ("Hydro One") applied to the Ontario Energy Board ("OEB" or "Board") pursuant to Section 92 of the *Ontario Energy Board Act, 1998* ("the Act") for an Order or Orders granting leave to upgrade existing transmission line and station facilities (the "BATU Project") in the Barrie and Innisfil area of Ontario. Specifically, Section 92 approval is sought to:
    - construct approximately nine kilometres of double circuit 230 kV transmission line spanning between Essa TS and Barrie TS. The new double circuit 230 kV line will replace approximately nine kilometres of the existing 115 kV single circuit transmission lines (known as the 'E3B' and 'E4B' circuits) that are currently carried on separate towers adjacent to each other on the same right-of-way; and
    - undertake associated station and line-enabling upgrade work at Essa TS to accommodate the circuit upgrade work, and to upgrade and expand Barrie TS.

2. Under section 78 of the Act, Hydro One has sought approval to establish a generic regulatory deferral account to record two Project-related elements: i) in-service additions of the portion of a project subject to a capital contribution, where a distributor elects to defer any part of the capital contribution payment owing to Hydro One past a project's in-service date; and ii) the interest revenue difference between the allowed interest charges Hydro One can charge connecting distribution customers[1] and the weighted average cost of capital ("WACC") Hydro One would otherwise be entitled to collect to keep Hydro One whole[2].

[1] Dated August 23, 2018 – TSC Amendments EB-2016-0003
[2] TSC Amendments EB-2016-0003

Project Need

3. The BATU Project facilities are required to increase supply capacity to accommodate customer load growth in the South of Barrie and Innisfil area and to address immediate end-of-life issues with the current line and station facilities.

4. The need for the BATU Project was identified through an integrated regional resource planning process led by the IESO pursuant to Board requirements governing regional planning. The IESO supports the BATU Project.

5. Load forecasts developed during regional planning for the South of Barrie area, as well as InnPower's internal forecasting, have confirmed that robust electricity load growth is anticipated for the South of Barrie and Innisfil areas. The IESO's Barrie/Innisfil Sub-region Integrated Regional Resource Plan[3] ("IRRP"), dated December 16, 2016, and the South Georgian Bay/Muskoka Regional Infrastructure Plan[4] ("RIP"), dated August 18, 2017, have both confirmed the need for additional supply capacity in the South of Barrie and Innisfil areas to address the forecast demand and end-of-life issues with current facilities. The Project is required to meet this growing load forecast. Moreover, the IESO's Handoff Letter[5] issued on December 7, 2015 ("the Letter") underscored that the transformation capacity for the area is expected to be reached around 2020. The Letter confirmed the BATU Project will meet the urgent near-term and medium-term needs of the area and will contribute to a longer-term plan to address the broader electricity needs across the Barrie and Innisfil area. Consequently, the Letter recommended this applied-for Project solution and requested Hydro One to start development activities immediately.

6. InnPower, at the Technical Conference, reconfirmed that its service area is expecting to have sustained strong future load growth[6], and provided additional and updated load forecast information.

7. In terms of reliability, the supply reliability for customers currently supplied from Barrie TS is not expected to change; and in fact, under the upgraded 230kV supply, customers can expect to experience better reliability, due to the comparison between

[3] Exhibit A, Tab 3, Schedule 1, Attachment 2
[4] Exhibit A, Tab 3, Schedule 1, Attachment 3
[5] Exhibit B, Tab 3, Schedule 1 Attachment 1
[6] Exhibit KT1.1 – InnPower Presentation

the current end-of-life assets in operation and the new assets and facilities that will be constructed.

8. The evidence on the record of this Application, consisting of prefiled evidence, interrogatory responses and evidence provided at the Technical Conference, confirms that the BATU Project is the most appropriate and cost-effective solution to address the timeline and magnitude of the need in the South of Barrie and Innisfil area. At the Technical Conference the IESO further reiterated that the planning process governing the identification of the Project need was appropriate.[7]

Project Costs

9. The total BATU Project cost is estimated at $91.0M[8], consisting of a capital in-service cost of $86.4M and OM&A removal costs of $4.6M. Project capital costs have been identified in three main sub-Project components, line work of $22.9M[9], and station work totaling $63.5M, consisting of two locations at Essa TS ($35.1M[10]) and Barrie TS ($28.4M[11]).

10. In terms of cost responsibility, the estimated sustainment cost of the Project that will be allocated to the transmission rate pool is $49.3M[12]. This amount is also referred to in this Application as the avoided sustainment capital cost, and the customer will receive a credit of that value ($49.3M) against the total BATU Project cost. The sustainment capital cost credit is used to determine the Project's cost responsibility. The customer is responsible for the $41.7M[13] balance of the BATU Project costs, which results in a forecast customer capital contribution of $15.7M[14].

Rate Impacts

11. Hydro One's economic evaluation provides that the impact of the Project on Hydro One Transmission's ratepayers is negligible[15].

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[7] Technical Conference, Volume 1, pgs. 24-44
[8] Exhibit B, Tab 9, Schedule 1, pg. 2
[9] Exhibit B, Tab 7, Schedule 1 pg. 1
[10] Exhibit B, Tab 7, Schedule 1 pg. 3
[11] Exhibit B, Tab 7, Schedule 1 pg. 2
[12] Exhibit B, Tab 7, Schedule 1 pg. 11
[13] Calculated as $91.0M (total Project Cost) less $49.3M (transmission pool cost)
[14] Exhibit B, Tab 9, Schedule 1, pgs. 4-5
[15] Exhibit B, Tab 9, Schedule 1 pg. 11

12. After the Project is placed in-service, and up to a period of 15 years from that in-service date, any customer(s) requesting either additional load supply or connection capacity would be required to pay Hydro One transmission charges and will be assessed to determine if they would be required to pay a capital contribution based on the circumstances of the supply increase or connection request, which would include items such as their load forecast and level of requested capacity[16], per section 6.3.17b of the Transmission System Code ("TSC").

Distributor Capital Contribution Repayment Treatment and Regulatory Deferral Account Request

13. Hydro One is seeking approval to use its proposed Loan Methodology versus utilizing the standard rate making methodology ("NBV Reduction Methodology"), described in this Application. The Loan Methodology, if approved, is forecast to result in Hydro One recording the net cost of the asset (Project cost less capital contribution payable, $70.7M) in its rate base once it is placed in-service[17]. The balance of the Project's in-service additions[18] that Hydro One continues to fund (prior to the receipt of customers capital contribution payments) would be recorded in a sub-account of the deferral account Hydro One is requesting as described below in paragraph 18. The Loan Methodology will avoid corporate tax implications as a result of the delayed capital contributions[19] and will provide benefits to ratepayers (estimated at over $2 million for this Project) as compared to the standard rate making methodology (i.e. the NBV Reduction Methodology[20]).

14. During the period over which a capital contribution is deferred, Hydro One will incur a revenue shortfall, as its rate base will include only the net cost of the asset. To ensure that Hydro One is kept whole, a generic regulatory account has been requested. Even if the Board does not approve InnPower's 15-year capital contribution deferral period, and InnPower defers capital contribution payments over only the TSC's current established maximum of five years, Hydro One would still incur a revenue shortfall over that period.

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[16] Technical Conference, Volume 1, pg. 69.
[17] In the case of the BATU Project, InnPower is requesting the Board approve a 15-year capital contribution deferral period.
[18] Equal to the Project's capital contribution payable by InnPower of $15.7M.
[19] Exhibit I, Tab 1, Schedule 19 parts b, d and e.
[20] Technical Conference Volume 1, pg. 13.

15. The generic regulatory account would record two related items, each in a separate sub-account. The first sub-account would capture the shortfall to Hydro One's revenue requirement regarding the impact of a distribution company electing to defer any of its capital contribution payment beyond day one of Project in-service. The earnings shortfall is defined (and can be calculated) as the interest Hydro One is permitted to charge a distributor at the Board-approved Construction Work-in-Progress("CWIP") rate, and the OEB approved WACC rate for Hydro One's return on rate base, as approved in its S.78 Revenue Requirement application[21]. The approval of the account for this Project and others like it going forward effectively allows for the transmitter to fully recover all the costs of undertaking the customer-triggered project, as provided for in the OEB's TSC Amendments[22].

16. Hydro One confirmed via interrogatories and witnesses' testimony at the Technical Conference that the decision to defer a capital contribution beyond day one of a transmission project's in-service date is beyond its control. Hydro One has no way of knowing in advance if a distributor will, or will not, elect to request a deferral of its required capital contribution. At a minimum, and without individual specific permission from the Board, a capital contribution can be deferred by a distributor for a period up to five years per the Board's TSC Amendments[23]. Approving a regulatory deferral account will achieve for Hydro One what the Code amendments state is one of the Board's objectives in its initial report[24], which is to keep the transmitter whole.

17. The impacts of the OEB's amendments to the TSC are something Hydro One believes are likely to be material to its operations. Furthermore, the decision to defer any part of a capital contribution beyond the date of project in-service is entirely at the discretion of the triggering distribution customer. Over the 2020 to 2022 period, Hydro One is potentially exposed to projects that will require capital contributions from distributors of over $200 million[25,26]. As such Hydro One expects that the

[21] The TSC permits a transmitter to charge the OEB approved CWIP rate, however the rate Hydro One rate that is required to be recovered in order to keep the transmitter whole on the outstanding balance is actually Hydro One's WACC.
[22] Dated August 23, 2018 – TSC Amendments EB-2016-0003
[23] Dated August 23, 2018 – TSC Amendments EB-2016-0003, Section 6.3.19
[24] Dated August 23, 2018 – TSC Amendments EB-2016-0003
[25] Technical Conference Volume 1, pg 79
[26] EB-2019-0082, Exhibit B, Tab 1, Schedule 1, pgs 15 to 18

annual amounts it will record in this account will satisfy the Board's deferral and variance account materiality threshold. Hydro One also states that the Board's other threshold criteria of prudency and causation are also satisfied.

18. The second sub-account would record the balance of a capital contribution outstanding to Hydro One. At the Project in-service date, Hydro One's rate base will be reduced by the full value of the customer's assessed capital contribution and, the amount recorded in the sub-account reflects the unfunded capital contribution payable by the distributor, in which Hydro One will earn its WACC until full payment is received. Subsequent capital contribution payments received from the customer are applied against the balance until it is fully paid. Hydro One does not expect that the balance in this sub-account would be collected from transmission ratepayers, and expects that the balance would be reduced to zero as capital contributions are received from any distributor(s) electing to defer full capital contribution payments from day one of project in-service.

19. Consistent with the OEB's TSC amendments for a capital contribution deferral period being available only to distributors, the generic regulatory account Hydro One is requesting would be used only to record amounts triggered by distributors availing themselves of a deferred capital contribution period.

20. Hydro One submits that creation of the generic deferral account is reasonable, given the risks and uncertainty that the capital contribution deferral option issue creates for Hydro One. Further, Hydro One submits that the prudency, causation and materiality threshold criteria have been met by this generic account request in order for the Board to approve its establishment.

21. As with all regulatory account balances, future disposition will remain subject to the Board's review and approval. Any amounts recorded in the deferral account do not give Hydro One the presumption of approval prior to any Board Order.

Request for exemption of the revenues earned on deferred capital contributions from the calculation of entries for Hydro One Transmission's 'External Station Maintenance, E&CS Revenue and Other Revenue Other Revenue Variance Account' calculation

22. Regardless of the period of time over which a distributor defers a capital contribution past day-one of in-service, the amounts paid to Hydro One on those outstanding

balances are required to be recorded by Hydro One as interest and will be categorized in its financial records as 'Other Revenue'.

23. In a prior Hydro One Transmission section 78 revenue requirement application, the Board established the *'External Station Maintenance, E&CS Revenue and Other Revenue Variance Account'*, requiring Hydro One to record any variances in actual Other Income, compared to the annual OEB-approved revenue requirement amounts, in a regulatory account, for future disposition to ratepayers. The interaction of this regulatory variance account will have an impact on the amount Hydro One is capable of retaining, which is contrary to the intention of the Board's TSC amendments.

24. Including these revenues relating to the deferred capital contributions from distributors in the calculation of the '*External Station Maintenance, E&CS Revenue and Other Revenue Variance Account*' would effectively reverse the impact of the Board's objective to keep the transmitter whole by permitting the transmitter to recover those costs of deferring the capital contribution from distributors. In order to not circumvent the Board's aim regarding its TSC code amendments, Hydro One believes that exempting Hydro One from including this type of income in its calculation of the amounts recorded in Hydro One's '*External Station Maintenance, E&CS Revenue and Other Revenue Variance Account*' is appropriate and warranted.

Summary

25. The need for this Project is supported by strong, objective evidence. The alternative options to meet the supply capacity need in the South of Barrie and Innisfil area are not as cost-effective as the option provided by the BATU Project, as arrived at in the regional planning process. The BATU Project is the most cost-effective solution to address the timeline and magnitude of the need identified by the IESO. Furthermore, the Project is in the interests of consumers with respect to price, reliability and quality of electricity service. It will provide increased reliability benefits to the South Barrie and Innisfil area while meeting the urgent immediate near-term and medium-term increased customer load growth supply capacity.

26. Hydro One submits that the BATU Project is in the public interest and that the Application should be approved as filed.

27. Hydro One also submits that the generic regulatory deferral account is an appropriate method of recording and tracking the impact of the delayed receipts of capital

contributions from distributors to allow Hydro One to be held whole (consistent with the concepts envisioned by the Board during the recent TSC amendment proceeding). Additionally, Hydro One submits that it is appropriate for the Board to direct Hydro One not to include income it recognizes relating to these delayed receipts when calculating entries in its currently approved *'External Station Maintenance, E&CS Revenue and Other Revenue Variance Account'*, so Hydro One requests that direction and approval.

All of which is respectfully submitted.

ORIGINAL SIGNED BY MICHAEL ENGELBERG

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Michael Engelberg

Counsel to the Applicant,
Hydro One Networks Inc.