Ontario Energy Board | Commission de l'énergie de l'Ontario

BY EMAIL

March 18, 2020

Ms. Christine E. Long
Registrar and Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4
BoardSec@oeb.ca

Dear Ms. Long:

Re: Hydro One Networks Inc.
Application for leave to upgrade existing transmission line facilities in the Barrie-Innisfil area
OEB Staff Submission

Ontario Energy Board File Number: EB-2018-0117

In accordance with Procedural Order No. 3, please find attached the OEB staff submission for the above proceeding. This document has been sent to Hydro One Networks Inc. and to all other registered parties to this proceeding.

Hydro One Networks Inc. is reminded that its reply submission is due by April 1, 2020, should it choose to file one.

Yours truly,

Original Signed By

David Martinello
Advisor, Generation & Transmission

Encl.

OEB Staff Submission

Application for leave to upgrade existing transmission line facilities in the Barrie-Innisfil area

Hydro One Networks Inc.

EB-2018-0117

March 18, 2020

1 BACKGROUND AND OVERVIEW

1.1 Overview of the Application

Hydro One Networks Inc. (Hydro One) filed an application with the Ontario Energy Board (OEB) under section 92 of the *Ontario Energy Board Act, 1998* (OEB Act) seeking approval to:

- Upgrade two 115 kV circuits (E3B and E4B), that are approximately 9 kilometres in length, between Essa Transformer Station (TS) and Barrie TS to become a new 230 kV double circuit transmission line (the new circuit nomenclature will be E28 and E29)
- Construct new 230 kV connection points at the existing Essa TS[1], including the addition of three new breakers, to connect the E28 and E29 circuits
- Upgrade and expand the existing Barrie TS yard with new 230 – 44 kV facilities, consisting of two new 75/125 MVA transformers and a new 44 kV switchyard

Collectively, the transmission line and station work are referred to as the Barrie Area Transmission Upgrade (BATU) Project. Hydro One states these facilities are required to increase transmission line capacity and transformation capacity to accommodate load growth in the Barrie/Innisfil area serviced by InnPower Corporation (InnPower).

As part of the application, Hydro One requests approval under section 97 of the OEB Act for the forms of agreements it will offer to landowners affected by the route or location of the proposed transmission line. In addition, Hydro One seeks approval under section 6.3.19 of the Transmission System Code (TSC) for a 15-year period in which InnPower will make payments to Hydro One on the capital contribution for the BATU Project – an increase from the five-year contribution period outlined in the TSC. A request was also made, pursuant to section 78 of the OEB Act, to establish a new variance account, the Capital Contribution Recovery Differential Account, to record the revenue requirement difference between what Hydro One will recover from InnPower on the capital contribution and the full recovery of the cost of capital loan to the borrower.

[1] The two existing 230/115 kV autotransformers at Essa TS will be retired, as well as the associated end-of-life 115 kV switchyard infrastructure currently used to supply Barrie TS.

1.2 Process to Date

Hydro One filed an application on October 11, 2019. The OEB issued a Notice of Hearing on November 11, 2019. The Independent Electricity System Operator (IESO) applied for, and was granted, intervenor status. No letters of comment were filed with the OEB.

In accordance with Procedural Order No. 1, OEB staff filed interrogatories on December 13, 2019 while Hydro One's responses to interrogatories were received by the OEB on January 9, 2020.

On January 23, 2020, the OEB issued Procedural Order No. 2 ordering that a technical conference take place on February 11, 2020 for further clarification on matters connected with interrogatory responses.[2] The OEB also cancelled the dates for submissions set out in Procedural Order No. 1. Responses to undertakings given at the technical conference were filed with the OEB on February 18, 2020.

On February 24, 2020, the OEB issued Procedural Order No. 3, which provided for an Argument-in-Chief, submissions from the IESO and OEB staff, and a reply submission from Hydro One. Hydro One filed its Argument-in-Chief with the OEB on February 28, 2020, and a letter updating its cost estimate on March 12, 2020.

1.3 Submission Overview

The requirement to obtain leave to construct transmission facilities arises from subsection 92(1) of the OEB Act which provides:

> No person shall construct, expand, or reinforce an electricity transmission line or an electricity distribution line or make an interconnection without first obtaining from the Board an order granting leave to construct, expand or reinforce such line or interconnection.

Section 96(2) of the OEB Act provides that in considering whether an application under section 92(1) of the OEB Act is in the public interest, the OEB shall only consider the following:

1. The interests of consumers with respect to prices and the reliability and quality of electricity service.

[2] OEB staff questioned members from Hydro One, InnPower and the IESO during the technical conference.

2. Where applicable and in a manner consistent with the policies of the government of Ontario, the promotion of the use of renewable energy resources.

OEB staff supports Hydro One's section 92 request for leave to construct, subject to the conditions of approval set out in Section 2.5 below. OEB staff also supports Hydro One's section 97 request for approval of the forms of agreements it will offer to landowners. It appears, from OEB staff's review of the evidence, that InnPower does not require an extended capital contribution installment period as a result of any breaches of debt covenants. However, if this is not the case, clarification can be provided through the reply submission. In addition, OEB staff agrees that the deferral of the capital contribution payment should be treated as a loan, but disagrees with Hydro One and InnPower's proposed approach on the regulatory treatment of the transaction. OEB staff is of the view that InnPower should include the full capital contribution in its rate base as an intangible asset when the asset goes into service and Hydro One should include the full capital contribution as an offset in its rate base when the asset goes into service.

The basis for OEB staff's submission is discussed in further detail below.

2 OEB STAFF SUBMISSIONS REGARDING LEAVE TO CONSTRUCT MATTERS

2.1 Need and Project Alternatives

The evidence indicates that the Barrie/Innisfil area is supplied primarily from a transmission system that is anticipated to be strained due to incremental growth in the near-term. In a December 7, 2015 letter to Hydro One, the IESO identified the need to provide additional capacity to supply growth in South Barrie and in the Town of Innisfil in the near- and medium-term, and to replace existing infrastructure that is approaching end-of-life. Currently, Barrie TS is the primary source of supply for the Barrie/Innisfil area. Barrie TS, and the infrastructure that supplies it, are all identified for end-of-life replacement.

During the process of conducting the Integrated Regional Resource Planning (IRRP) process for the Barrie/Innisfil area, the IRRP working group concluded that given the nature and timing of the needs, and non-wire alternatives not being viable options, recommended that work on the transmission solution proceed. The IESO provided a hand-off letter recommending that Hydro One proceed immediately with the development of the BATU Project.[3] The IESO's letter noted that the working group would continue to develop the medium- and long-term plan for the Barrie/Innisfil sub-region in parallel. The final IRRP for the Barrie/Innisfil sub-region, published on December 16, 2016, identified near- and medium-term supply needs for the Barrie/Innisfil area. The South Georgian Bay/Muskoka Regional Infrastructure Plan (RIP), dated August 18, 2017, further identified near- and medium-term needs for the area.

Hydro One highlights in its application and Argument-in-Chief that the BATU Project is needed to address immediate end-of-life issues with the current transmission line and station facilities. Hydro One submits that the existing T1 and T2 transformers, the majority of the 44 kV switchgear, capacitor banks and associated ancillary equipment at Barrie TS have reached end-of-life. Further, at Essa TS, the 230/115 kV T1 autotransformer, a station service transformer, the majority of the 115 kV switchgear, and associated protection and ancillary equipment have also reached end-of-life.[4] Hydro One notes in the application that the E3B and E4B circuits supplying Barrie TS are also nearing end-of-life. Specifically, the E3B transmission facilities are between 69 and 71 years old while E4B transmission facilities are 58 years old.[5] Hydro One stated

[3] Exhibit B / Tab 3 / Schedule 1 / p. 1
[4] Exhibit B / Tab 5 / Schedule 1 / p. 3
[5] Exhibit I / Tab 1 / Schedule 4 / p. 7

that the methodology used to determine end-of-life facilities is consistent with that submitted in its transmission rate application.[6]

InnPower, which is supplied from Barrie TS, Alliston TS and Everett TS, indicates that significant development plans will drive strong electricity demand growth over the long-term. InnPower's letter of support for the BATU Project, dated May 23, 2019, estimates approximately 25,000 new homes will be constructed in South Barrie and the Town of Innisfil – requiring an increase of approximately 85 MVA of peak power. There is also the possibility for the development of industrial, commercial and institutional loads, which may add an additional 90 MVA of peak power requirements.[7] Both Hydro One and InnPower indicate that the current load-meeting capability of the E3B and E4B circuits, and transformation capacity at Barrie TS, are not sufficient to meet such growth projections.

The current total existing supply capacity assigned by Hydro One to InnPower is 67 MVA with limited capability for load transfers to address long-term growth needs in the area.[8] In 2019, InnPower's peak demand was 64 MVA.[9]

The initial forecast in the IRRP that established that there were needs in the region included demand growth forecasts by InnPower and Alectra Utilities Corporation (Alectra). However, Alectra withdrew its requirements for capacity on the BATU Project, citing a lack of forecasted growth materializing. As such, capacity that had been allocated to Alectra during the IRRP was then allocated to InnPower. Through interrogatories and the technical conference, need for the BATU Project was explored through examination of load forecasts provided by InnPower. In response to an undertaking from the technical conference, InnPower provided an updated load forecast incorporating a 35% discount (Table 1 below), each year, to represent a more conservative estimate of its forecasted total system peak (i.e., if all potential growth does not materialize as forecasted).[10]

[6] EB-2019-0082
[7] Exhibit B / Tab 1 / Schedule 1 / Attachment 1 / p. 1
[8] Supply capacity for Barrie TS, Alliston TS and Everett TS are 14 MVA, 50 MVA and 3 MVA, respectively.
[9] InnPower Undertaking JT1.1 / Table JT 1.1-1
[10] InnPower Undertaking JT1.1 / Table JT 1.1-2

Table 1: InnPower Forecasted System Peak Loading After Applying Sensitivity Analysis

INNPOWER FOREASTED SYSTEM PEAK (MVA)																
	Based on Forecasted Subdivision Draft Apporval												Based on Forecasted Growth of average of 1.1% per year			
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
TOTAL SYSTEM (35% Conservative Factor)	71.80	76.78	83.55	90.46	97.49	106.59	115.60	123.78	131.33	137.93	143.69	152.92	154.40	155.88	157.35	158.83

In the updated forecast, InnPower expects to exceed its allocated capacity of 67 MVA in 2020. Due to the transfer of an Alectra feeder from Barrie TS to Midhurst TS, the increased InnPower demand will be supplied from Barrie TS in the short-term. However, an updated load forecast for Barrie TS provided by Hydro One indicates that Barrie TS will exceed its capacity in 2023.[11]

The IRRP notes that Metrolinx has applied for connection to the transmission system in the Barrie area for the development of an electrified traction power station (Allandale Traction Power Station) – an element of Metrolinx's rail corridor electrification efforts. The IRRP does not identify a specific capacity for the Allandale Traction Power Station, but the RIP estimates it will require 40-50 MW of capacity.[12]

Further information on the Allandale Traction Power Station was explored during the technical conference. Due to confidentiality matters, Hydro One was unable to provide details regarding the exact capacity required or expected connection date to the BATU Project, but did note that the Allandale Traction Power Station project is ongoing.[13]

To address the need, three alternatives were considered by Hydro One:

1. **Like-for-Like Replacement of the End-of-Life Facilities – Maintaining the current 115 kV supply to the Barrie/Innisfil Area (Alternative One):** Under this alternative, Barrie TS would be rebuilt like-for-like with customized transformers; end-of-life facilities (including the T1 autotransformer) at Essa TS would be replaced like-for-like; and aging conductors and poles along the E3B and E4B circuits would be replaced.

2. **New Dual Element Spot Network (DESN) Transformation at Essa TS and Decommissioning Barrie TS (Alternative Two):** Under this alternative, Barrie TS and the 115 kV transmission assets at Essa TS would be decommissioned and a new 230/44 kV DESN transformation station, within the Essa TS yard, using standard 75/125 MVA transformers would be constructed. From the Essa

[11] Hydro One Undertaking JT1.5 / Table 2
[12] Exhibit B / Tab 3 / Schedule 1 / Attachment 3 / p. 39
[13] Technical Conference Transcript / Vol. 1 / pp. 65-69

TS site, the 44 kV feeders would utilize the decommissioned E3B and E4B corridor to re-supply feeders formerly fed by Barrie TS.

3. **Rebuild Barrie TS to 230 kV Supply (Alternative Three):** Under this alternative, the existing end-of-life 115 kV switchyard at Barrie TS and existing 230/115 kV autotransformer at Essa TS, which supplies Barrie TS load, would be retired. The existing 115 kV E3B and E4B circuits would be replaced with a 230 kV double circuit to supply the rebuilt 230 kV Barrie TS directly from the expanded Essa TS 230 kV system.

Alternative Three was selected as the recommended technical solution. Hydro One submits that Alternative Three addresses near-term and medium-term capacity needs, removes an aging 115 kV switchyard at Essa TS, and allows for future expansion capability to supply the region's long-term capacity needs.[14]

Alternative One would address end-of-life needs, however, it was not selected as a viable solution, even though it is the least expensive alternative, as it does not result in any additional incremental supply capacity at Barrie TS or any additional 115 kV supply from Essa TS.[15] Hydro One states that Alternative One limits options for future expansion of the transmission system to accommodate capacity increases.

Alternative Two will address end-of-life needs and provide additional capacity in the near-term, but limits options for future expansion of the transmission system to accommodate future capacity increases in the Barrie/Innisfil area. This alternative will also have higher system losses, when compared to Alternative Three, due to longer distribution voltage rated feeders.

Submission

OEB staff supports the proposed BATU Project as the upgraded transmission line and station facilities will replace end-of-life assets and assist in increasing supply capacity, accommodating InnPower's forecasted customer load growth in the Barrie/Innisfil area. The net demand growth in South Barrie and the Town of Innisfil is forecast to exceed the supply capacity of both Barrie TS and the 115 kV supply circuits to the station in the near-term. Given that many of the assets in the area are at end-of-life, there is an opportunity to enable additional capacity when they are being replaced. Although there may be a question as to the exact amount of growth that will materialize in a given year, it is clear to OEB staff that the area is growing and that additional supply capacity will be

[14] Exhibit B / Tab 5 / Schedule 1 / p. 4
[15] Exhibit B / Tab 5 / Schedule 1 / pp. 1-2

needed over the long-term. On balance, the BATU Project appears to be the most reasonable alternative for the Barrie/Innisfil area.

OEB staff had initial concerns regarding demand growth in the Barrie/Innisfil area upon learning that Alectra, a party to the IRRP, withdrew its support for the BATU Project citing a lack of forecasted growth materializing. Additional and updated information on electricity demand drivers to support forecasted demand growth (beginning in 2020), stages of development construction, and status of the Allandale Traction Power Station were explored through interrogatories and the technical conference.

Based on the updated forecasts provided for South Barrie and the Town of Innisfil, demand growth (net of conservation and distributed generation) is expected to place increased stress on the existing transmission and distribution infrastructure – the 230 kV/115 kV autotransformer at Essa TS; the 115 kV transmission line and step-down 115 kV/44 kV transformer at Barrie TS; and distribution feeders in the Barrie/Innisfil area.

In response to an undertaking from the technical conference, evidence provided by InnPower identified residential and commercial developments as the main drivers of electricity demand – of which 24,545 residential and 40 commercial units are forecast to be constructed between 2020 and 2032.[16] As such, OEB staff accepts that even without Alectra, the electricity demand growth forecast by InnPower warrants the need for the BATU Project.

OEB staff notes that although it does not directly identify the Allandale Traction Power Station, the IESO's Annual Planning Outlook, issued January 2020, identifies Metrolinx constructing an integrated transit network which promotes transit electrification. The electrification of rail corridors (including in the Barrie area) is characterized as being a multi-year project with completion expected in 2025.[17] This further highlights the potential for future load growth and demand in the Barrie/Innisfil area and, therefore, need for the BATU Project. The recommended technical solution, Alternative Three, will be able to accommodate load growth associated with Metrolinx connecting in the future.

The IESO highlighted that Alternative Three not only addresses load growth needs, it also addresses end-of-life needs at Barrie TS, Essa TS and components of the 115 kV supply infrastructure.[18]

[16] InnPower Undertaking JT 1.2
[17] IESO Annual Planning Outlook / January 2020 / p. 5
[18] Exhibit I / Tab 1 / Schedule 4 / p. 2

2.2 Price

The total estimated capital cost of the BATU Project is $86.4 million – comprised of $22.9 million in line costs and $63.5 million in station[19] costs. In the absence of the need for the BATU Project, Hydro One would undertake sustainment work. The avoided cost of sustainment work was originally estimated to be $56.2 million, but later refined by Hydro One. Hydro One filed a letter on March 12, 2020, informing the OEB of a revision to the avoided sustainment cost estimate. The revision increased the avoided sustainment cost estimate by 5% from that in the pre-filed evidence – from $56.2 million to $59.2 million – and therefore reduced the capital contribution to be paid by InnPower by $1.3 million – from $15.7 million to $14.4 million.[20]

The cost allocated to InnPower for line and station work is limited to the incremental costs relative to the cost of the avoided sustainment work, consistent with section 6.7.2(b) of the TSC. The incremental cost to InnPower for line and station work will be paid through a capital contribution ($14.4 million) and incremental load revenue.

Hydro One confirmed that the cost estimate for the BATU Project is an Association for the Advancement of Cost Engineering (AACE) Class 3[21] estimate.[22] Hydro One further confirmed that it anticipates that the budgeted contingency costs are sufficient to cover identified risks.

Hydro One provided cost information for three comparable line projects – the Guelph Area Transmission Reinforcement (GATR) Project, the Woodstock Area Transmission Reinforcement (WATR) Project, and the South Georgian Bay Transmission Reinforcement (SGTR) Project. Hydro One states that these projects are similar to the BATU Project in that they involved building a relatively short length of double circuit 230 kV transmission line in a rural/semi-urban environment on existing Hydro One right-of-ways to replace existing 115 kV circuits.[23] The line cost per kilometre of $2.5 million/km for the BATU Project lies between the $2.1 million/km to $4.8 million/km of the comparator transmission line projects provided by Hydro One.[24]

Cost comparisons were also provided for the construction of station facilities. For Barrie TS, Hydro One provided three comparable station projects – the St. Isadore TS Project, Palmerston TS Refurbishment Project, and Enfield TS New DESN. Hydro One states that these stations were chosen as comparators as the scope of work is considered to

[19] For station costs, $35.1 million and $28.4 million are attributed to Barrie TS and Essa TS, respectively.
[20] Hydro One Letter of Correspondence / March 12, 2020 / p. 1
[21] An AACE Class 3 estimate is -10% to -20% on the low side, and +10% to +30% on the high side, for its accuracy range.
[22] Exhibit I / Tab1 / Schedule 9 / p. 2 and Hydro One Letter of Correspondence / March 12, 2020 / p. 1
[23] Exhibit B / Tab 7 / Schedule 1 / p. 13
[24] Costs included an escalation adjustment of 2% per year.

be similar to the scope of work, with some adjustments made for station-specific differences, to that proposed for Barrie TS.[25] Barrie TS is expected to cost $35.1 million while the St. Isadore TS Project, Palmerston TS Refurbishment Project, and Enfield TS New DESN projects cost $37.2 million, $36.1 million and $33.0 million, respectively.[26]

Hydro One provided cost information for three comparable station projects for the proposed work at Essa TS – the Detweiler TS Static Var Compensator (SVC) Project, Hydro Quebec Interconnection Project, and Detour Lake 230 kV Line Connection Project. In its application, Hydro One notes that finding comparable projects to the scope of work proposed for Essa TS is challenging as station site reconfiguration work is highly dependent upon each station's individual, site-specific conditions.[27] Work at Essa TS is estimated to cost $28.4 million while the Detweiler TS SVC Project, Hydro Quebec Interconnection Project, and Detour Lake 230 kV Line Connection Project cost $32.1 million, $28.1 million and $28.7 million, respectively.[28]

Through interrogatories, Hydro One updated the costs of comparable line and station projects to include real estate costs and actual Consumer Price Index (CPI) rates, instead of the 2% escalation cost applied to such projects in the application.[29] The updated costs, accounting for actual CPI rates, indicate no material difference in total comparable project cost when compared to those using the 2% escalation cost.

Hydro One's application states that based on the initial line connection cost of $22.9 million and the associated line pool incremental cash flows, there will be a slight change in the line pool revenue requirement once the BATU Project's impacts are reflected in the transmission rate base at the projected in-service date.[30] However, over a 25-year time horizon, the change in the line pool revenue requirement is not material enough to incrementally impact the current Uniform Transmission Rate line pool rate.[31]

Based on the cost estimate of $28.4 million for work at Essa TS, over the first seven years of the 25-year time horizon, the revenue requirement should have no impact on the network pool rate of $3.83/kW/month. However, as the load increases, the rate will be positively affected by the eighth year as the network pool rate will decrease to $3.82/kW/month.[32] Further, based on the $35.1 million cost estimate for work at Barrie

[25] Exhibit B / Tab 7 / Schedule 1 / pp. 17-18
[26] Costs included an escalation adjustment of 2% per year.
[27] Exhibit B / Tab 7 / Schedule 1 / p. 21
[28] Costs included an escalation adjustment of 2% per year.
[29] Exhibit I / Tab 15 / Schedule 1 / pp. 2-5
[30] Hydro One anticipates an in-service date of June 2022.
[31] Exhibit B / Tab 9 / Schedule 1 / p. 10
[32] Exhibit B / Tab 9 / Schedule 1 / p. 10

TS, the transformation pool rate will increase from $2.30/kW/month to $2.31/kW/month in year two.[33]

Hydro One states that based on the load forecast, initial capital costs and ongoing maintenance costs, there will be a minimal impact on rates. Hydro One provided evidence to demonstrate the impact on a typical residential customer's bill – Table 2 below – which details the typical residential customer impact as outlined in the pre-filed evidence.[34]

Table 2: Impact on Typical Residential Customer

A. Typical monthly bill (Residential R1 in a high density zone at 1,000 kWh per month with winter commodity prices.)	$137.40 per month
B. Transmission component of monthly bill	$15.04 per month
C. Line Connection Pool share of Transmission component	$2.09 per month
D. Network Pool share of Transmission component	$7.95 per month
E. Transformation Connection Pool share of Transmission component	$5.00 per month
F. Impact on Line Connection Pool Provincial Uniform Rates	0.00%
G. Impact on Transformation Connection Pool Provincial Uniform Rates	0.43%
H. Impact on Network Connection Pool Provincial Uniform Rates	-0.26%
I. Decrease in Transmission costs for typical monthly bill (C x E)	-0.01%
J. Net impact on typical residential customer bill (G / A)	$0 per month or $0.01 per year

Submission

OEB staff submits that the evidence provided by Hydro One on the cost information for comparable projects suggests that the cost estimates for the BATU Project are reasonable. OEB staff notes that the OEB has previously granted leave to construct for a project with an AACE Class 3 estimate (the recent Power South Nepean Project[35]).

OEB staff also submits that Hydro One's pre-filed evidence demonstrates that the BATU Project will have no material adverse impact on transmission rates or customer bills as the rate impacts are anticipated to be minimal. Hydro One's letter of March 12, 2020 also demonstrates there will be no material adverse impact on transmission rates or customer bills in light of the 5% increase to the avoided sustainment cost estimate and the overall BATU Project cost remaining unchanged.

[33] Exhibit B / Tab 9 / Schedule 1 / p. 11
[34] Note error in Row I. Decrease in Transmission Costs for Typical Monthly Bill (C x F rather than C x E).
[35] EB-2019-0077

2.3 Reliability and Quality of Service

Hydro One filed the IESO's final System Impact Assessment (SIA) for the connection of the transmission facilities. The conclusion of the IESO's SIA is that the BATU Project is expected to have no material adverse impact on the reliability of the integrated power system, provided that the requirements in the IESO's SIA are implemented.

Hydro One also completed and filed a final Customer Impact Assessment (CIA). The conclusion of the CIA is that the BATU Project has no material impact on area customers. Through its Argument-in-Chief, Hydro One submitted that the BATU Project is in the interests of consumers with respect to reliability and quality of service.[36]

Submission

Based on the evidence provided by Hydro One, OEB staff submits that there are no concerns with respect to reliability and quality of electricity service associated with the BATU Project. This is supported by the IESO's SIA stating that the BATU Project is not expected to have a material adverse effect on the reliability of the integrated power system and the CIA, which concludes that the BATU Project will have no material impact on existing customers in the area.

2.4 Land Matters

According to section 97 of the OEB Act, in an application under sections 90, 91 or 92 of the OEB Act, leave to construct shall not be granted until the applicant satisfies the OEB that it has offered or will offer to each owner of land affected by the approved route or location an agreement in a form approved by the OEB.

Hydro One has confirmed that it will be using its existing land rights for the BATU Project and will be acquiring additional permanent and temporary land rights. In response to an OEB staff interrogatory, Hydro One confirmed that it has initiated land acquisition activities with all impacted private landowners and has completed 15 of 15 permanent land rights agreements.[37] Hydro One also identified that it will require three temporary access rights.[38] No significant concerns have been raised by impacted landowners with respect to the BATU Project. Hydro One states that it does not require any permits and/or approval to occupy municipal road allowances and that the right-of-

[36] Hydro One Argument-in-Chief / p. 7
[37] Exhibit I / Tab 1 / Schedule 11 / p. 4
[38] Exhibit I / Tab 1 / Schedule 11 / p. 5

way does not impact federal or provincial lands which require permitting or cross highway, rail, or permanent water crossings.

Hydro One seeks approval of the forms of agreements offered or to be offered to affected landowners. In response to an OEB staff interrogatory, Hydro One confirmed that all impacted landowners have the option to receive independent legal advice regarding the land agreements, and that it would commit to reimbursing those landowners for reasonably incurred legal fees associated with the review and completion of the necessary land rights.[39] Hydro One also confirmed that the forms of agreements included in the application have been previously approved by the OEB in the Power South Nepean Project[40] application.

Submission

OEB staff has reviewed the proposed forms of agreements and has no issues or concerns with Hydro One's proposed forms of land agreements. These agreements appear to be consistent with the forms of agreements previously approved by the OEB in the Power South Nepean Project[41] application. Further, the proposed agreements are consistent with the OEB's *Filing Requirements for Electricity Transmission Applications*.

2.5 Conditions of Approval

The OEB Act permits the OEB, when making an order, to impose such conditions as it considers proper. OEB staff proposes that the following conditions of approval be placed on Hydro One. OEB staff notes that these proposed conditions are based on the standard set of conditions that the OEB has approved in prior leave to construct applications, including a modification to condition 5 based on a recent decision by the OEB on Hydro One's D6V/D7V transmission line refurbishment application[42]:

1. Hydro One shall fulfill any requirements of the SIA and the CIA, and shall obtain all necessary approvals, permits, licences, certificates, agreements and rights required to construct, operate and maintain the project.

2. Unless otherwise ordered by the OEB, authorization for leave to construct shall terminate 12 months from the date of the Decision and Order, unless construction has commenced prior to that date.

[39] Exhibit I / Tab 1 / Schedule 12 / p. 1
[40] EB-2019-0077
[41] EB-2019-0077
[42] EB-2019-0165

3. Hydro One shall advise the OEB of any proposed material change in the project, including but not limited to changes in: the proposed route, construction schedule, necessary environmental assessment approvals, and all other approvals, permits, licences, certificates and rights required to construct the project.

4. Hydro One shall submit to the OEB written confirmation of the completion of the project construction. This written confirmation shall be provided within one month of the completion of construction.

5. Hydro One shall designate one of their employees as project manager who will be the point of contact for these conditions, and shall provide the employee's name and contact information to the OEB and to all affected landowners, and shall clearly post the project manager's contact information in a prominent place at the construction site.

Submission

OEB staff supports Hydro One's section 92 request for leave to construct subject to the conditions of approval set out above. Based on the evidence provided in the proceeding, OEB staff does not see the need for additional conditions of approval specific to this project.

3 OEB STAFF SUBMISSIONS ON OTHER MATTERS

3.1 Extension of Capital Contribution Payment Period

The BATU Project cost is $91 million, where capital in-service cost is estimated to be $86.4 million and removal costs are estimated to be $4.6 million.[43] The related capital contribution is forecasted to be $14.4 million as calculated using the prescribed economic evaluation methodology according to section 6.5 of the TSC.[44]

Section 6.3.19 of the TSC states:

> Where a distributor is required under this Code to provide a capital contribution to a transmitter, the transmitter shall permit the capital contribution to be provided in equal installments over a period of time not to exceed five years unless a longer period is approved by the Board. Where a distributor provides the capital contribution in installments, the transmitter shall charge interest on the unpaid balance at the Board's prescribed construction work in progress (CWIP) rate which is updated quarterly and published on the Board's website. The interest charges shall accrue monthly commencing on the date the connection asset goes into service and be paid annually, as part of each installment payment.

In the application, InnPower requests to extend the capital contribution installment period from five years to fifteen years. InnPower indicated that a fifteen-year period was selected as it reduced immediate financial stress on InnPower, is in line with InnPower's load growth timeframe, does not cause significant impact to Hydro One transmission's asset pool and is in line with the current capital contribution refund period[45] for transmission projects.[46]

In the Notice of Revised Proposal to Amend a Code[47] (the August 2018 Notice), page 16 states:

---

[43] March 12, 2020 letter *Re: EB-2018-0117 – Hydro One Networks Inc.'s Section 92 – Barrie Area Transmission.* The BATU Project cost estimate of $91 million remains the same.
[44] *Ibid*. Capital contribution has been revised to $14.4 million.
Upgrade Project – Information Update
[45] The refund is referring to Section 6.3.17 of the TSC that states "where that capital contribution includes the cost of capacity on the connection facility in excess of the customer's needs, the transmitter shall provide a refund…" Section 6.3.17b further states "where the customer makes the capital contribution on or after August 26, 2013, the refund shall be provided if that excess capacity is assigned to another customer within fifteen years after the date on which the connection facility or modification to the connection facility comes into service"
[46] Exhibit B / Tab 1 / Schedule 1 / Attachment 1
[47] Revised Proposed Amendment to the Transmission System Code and the Distribution System Code to Facilitate Regional Planning, EB-2016-0003, August 23, 2018

> An OEB Decision approving an extension would still be required on a case-by-case basis for the installment period to exceed five years. The OEB currently foresees only one justification for an extended period. That is, where the consumer bill impacts are still too high and continue to present a barrier to the implementation of a regional plan.

To address the August 2018 Notice, InnPower provided its residential total bill impact from 2022 to 2036. The year 2022 is the year InnPower is expected to rebase; this also coincides with the year that the asset is going into service and therefore, the first year where InnPower will need to pay a capital contribution installment and the associated interest expense. InnPower provided bill impacts for three scenarios:

1. **One-year Scenario**: The full capital contribution is included in rate base in 2022
2. **Five-year Scenario**: The capital contribution is included in rate base over five years (i.e. cost of service application for 2022 rates would include 1/5th of total capital contribution in rate base and the cost of service application for 2027 rates would include the entire capital contribution in rate base)
3. **Fifteen-year Scenario**: The capital contribution is included in rate base over fifteen years (i.e., cost of service application for 2022 rates would include 1/15th of total contribution in rate base and only in the cost of service application for 2037 rates would the entire capital contribution be included in rate base).

A summary of the year-over-year change in bill impacts[48] based on the original $15.7 million capital contribution in the rebasing years is reproduced below. The IRM years between rebasing shows bill increases of under 0.5% annually to reflect the impact from adjustments for the typical IRM adjustment factor[49].

Table 3: InnPower Bill Impacts

	2022	2027	2032
i) One-year scenario	-3.92%	-4.20%	-1.74%
ii) Five-year scenario	-4.71%	-3.21%	-1.78%
iii) Fifteen-year scenario	-4.85%	-3.90%	-1.04%

Submission

In all three rebasing years, InnPower shows negative bill impacts for all scenarios. OEB staff also notes that the bill impacts between the three scenarios are relatively close. There is also no consistent trend where one scenario has the largest bill decrease. OEB

[48] Revised bill impacts provided in InnPower Undertaking JT1.8
[49] *Ibid.*

staff is unclear as to what is the main driver for the decreases in bill impacts in the rebasing years. Regardless, InnPower has not indicated that the revised bill impacts is a reason for the request to extend the installment period to fifteen years.

InnPower also provided its forecasted debt covenants in all three scenarios from 2022 to 2032.[50] InnPower does not breach any debt covenants in the five and fifteen year scenarios. It appears, from OEB staff's review of the evidence, that InnPower does not require an extended capital contribution installment period as a result of any breaches of debt covenants. However, if this is not the case, clarification can be provided through the reply submission.[51]

In an interrogatory response[52], InnPower stated that if the fifteen-year installment period is disallowed by the OEB, it will incur significant borrowing costs to finance the large annual payments. OEB staff notes that InnPower is expected to rebase in the same year that the asset goes into service, and therefore, the same year as when InnPower is required to start paying Hydro One the annual installments along with interest cost at the CWIP rate. The timing of these events align and will allow InnPower to include the capital contribution in its rate base to start earning a return on the asset, providing InnPower increased financial capability to pay Hydro One. In OEB staff's view, the following items remain unclear: whether InnPower would still require external financing; the extent of debt capacity available[53] to InnPower; and what the cost of that financing would be.[54]

OEB staff submits that InnPower has not been able to demonstrate that there will be high bill impacts that would necessitate a capital contribution installment period exceeding five years. InnPower has also not indicated that the revised bill impacts was the driver for the installment period extension request. OEB staff also submits that InnPower has not provided any further rationale that justifies the need for the extension of the installment period to fifteen years. Therefore, based on OEB staff's review of the evidence, InnPower does not require an extended capital contribution installment period as a result of any breaches of debt covenants.

---

[50] *Ibid.*

[51] Per InnPower Undertaking JT1.8, the debt service coverage ratio takes into account Free Cash Flow, which considers capex. It is unclear to OEB staff whether including the full capital contribution upfront will change the covenant to be breached.

[52] Exhibit I / Tab 1 / Schedule 21 / part ii

[53] InnPower's 2018 audited financial statements as filed pursuant to the OEB's Reporting and record-keeping requirement indicate that as at the 2018 year-end, InnPower had a line of credit of $4 million that had not been drawn on.

[54] InnPower indicated that its borrowing rate would be 3.5%-4% over a 20 to 30 year term. OEB Staff is unclear why InnPower would use a 20 to 30 year term when it has stated that it would be able to pay Hydro One over a 15 year term without having to borrow externally (Technical Conference Transcript Vol. 1, February 11, 2020, pp.92-94)

3.2 Regulatory Treatment of Capital Contribution

For rate-making purposes, capital contributions received by transmitters are not eligible for inclusion in the transmitter's rate base or revenue requirement. Capital contributions received are treated as an offset to rate base, and amortized accordingly. Capital contributions paid by a distributor are recorded as intangible assets and eligible for inclusion in the distributor's rate base and revenue requirement. In the case where capital contributions are received over a period of time, Hydro One indicated that normal accounting practices would record the capital contributions as they are received.[55] OEB staff understands this to mean that the gross cost of the asset would be recorded in Hydro One's rate base when the asset goes into service, where it would attract the weighted average capital cost (WACC) until capital contributions are received and recorded as offsets to rate base. InnPower indicated that it would record capital contributions into rate base as they are paid.[56]

Hydro One indicated that this is the first project where a capital contribution will be paid over an installment period.[57] It has proposed to treat the deferral of capital contribution payment as a loan.[58] In its Argument-in-Chief, Hydro One clarified that it is proposing to record the net cost of the asset after offsetting the full capital contribution (i.e., $70.7 million for the BATU Project) in rate base once the asset is in service.[59] Two sub-accounts are then proposed to be established. The first sub-account, the "Distributor Contribution" sub-account, with a corresponding contra-account, would record the unpaid balance of the capital contribution. This sub-account will be drawn down as the capital contribution is paid to Hydro One and will not be disposed to ratepayers. The second sub-account, the "Capital Contribution Recovery Differential Account", would record the difference between the interest income at the CWIP rate that Hydro One is to receive per the TSC and the OEB-approved WACC for Hydro One on the unpaid capital contribution.[60] Hydro One proposed that these sub-accounts be approved generically and this approach be used for all future capital contributions that are paid over an installment period.

[55] Technical Conference Transcript / Vol. 1 / p. 78
[56] *Ibid.* / p. 73
[57] *Ibid.* / p. 78
[58] Technical Conference Hydro One Presentation Material KT1.1
[59] Hydro One Argument-in-Chief / p. 4
[60] *Ibid.* / pp. 4-6

Submission

Regulatory Treatment

OEB staff agrees with Hydro One that the deferral of capital contribution payment should be treated as a loan as that is the nature of the transaction. However, OEB staff disagrees with certain elements of Hydro One and InnPower's proposed approach on the regulatory treatment of the transaction. In summary, OEB staff agrees that Hydro One should remove the full capital contribution from its rate base when the asset goes into service, regardless of whether Hydro One's proposed account is approved or not. However, under OEB's staff proposed approach, as discussed in the following sections, InnPower would receive a benefit and include the full capital contribution in its rate base when the asset goes into service.

Prior to the TSC amendments[61], where distributors did not have the option to defer capital contribution payments, InnPower would borrow the funds externally, if required, and pay the entire capital contribution to Hydro One upfront. Assuming the current scenario of InnPower rebasing for 2022 rates, InnPower would record the entire capital contribution in its rate base, where it would receive a return on the asset at WACC and Hydro One would include the entire capital contribution as an offset to its rate base. InnPower would repay the borrowed funds over a period of time to the external lender along with the associated interest costs.

In the current case, Hydro One is also acting in the role of the external lender to InnPower. InnPower is to pay the capital contribution over a period of time to Hydro One and will compensate Hydro One with interest cost at the CWIP rate. OEB staff therefore submits that the regulatory treatment of capital contributions should be the same as if InnPower borrowed the required funds externally. That is:

1. InnPower should include the full capital contribution in its rate base as an intangible asset when the asset goes into service as it is considered used and useful to InnPower. InnPower should also record a corresponding payable to Hydro One.

   InnPower proposed to record the capital contribution into rate base as it is paid to Hydro One.

2. Hydro One should include the full capital contribution as an offset in its rate base when the asset goes into service, with a corresponding receivable from InnPower.

[61] TSC was amended December 18, 2018 to include section 6.3.19

> Hydro One proposed to remove the full capital contribution from rate base and record it in the Distributor Contribution sub-account, where it will be drawn down as payments are received. The Capital Contribution Recovery Differential Account sub-account will then record the difference between the interest income at the CWIP rate that Hydro One is to receive per the TSC and the OEB-approved WACC for Hydro One on the unpaid capital contribution. In total, Hydro One will receive WACC on the unpaid capital contribution through payments from InnPower and the amounts recorded in the Capital Contribution Recovery Differential Account.

Typically, financial accounting treatment would be the same as the regulatory accounting treatment unless otherwise specified in regulatory accounting guidance issued by the OEB. As mentioned above, Hydro One indicated that that normal financial accounting practices would record the capital contributions as they are received. Similarly, InnPower indicated it would record the capital contributions as an intangible asset as it is paid. OEB staff is of the view that once the asset is in service, the capital contribution will meet the definition of a financial instrument under US Generally Accepted Accounting Principles and International Financial Reporting Standards, and should be fully recognized on the balance sheet on day one for both Hydro One and InnPower. Therefore, this financial accounting treatment would be consistent with the regulatory accounting treatment proposed in the bullet points above. Under this scenario, there would be no need to establish a separate regulatory account to track the unpaid capital contributions and interest earned/paid as this will be accounted for under normal accounting practices.

The OEB's Notice of Revised Proposal to Amend a Code

OEB staff notes that page 17 of the August 2018 Notice states

> A transmitter expressed the view that distributors should pay interest to the transmitter at the transmitter's OEB approved cost of capital on the unpaid balance, rather than the OEB's prescribed construction work in progress (CWIP) rate proposed in the September Proposed Amendments. The OEB does not agree, as only the amount that has been paid in installments will be included in the distributor's rate base. 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. As such, at any point in time, 100% of the total cost will be in rate base (e.g., 40% distributor, 60% transmitter). Under the transmitter's proposed approach, to some extent, it would get paid the cost of capital twice. The CWIP rate is being proposed to address the incremental financing costs the transmitter will need to incur in receiving the capital contribution over time rather than through a single payment

at the time the asset goes into service. The OEB's intent is to hold the transmitter (and its customers) harmless.

OEB staff acknowledges that OEB staff's proposed regulatory approach for capital contribution differs from that described in the August 2018 Notice. However, OEB staff believes that the proposed approach will better achieve the intent of the notice and better reflect the nature of the transaction, which is essentially a loan from Hydro One to InnPower. At any point in time, 100% of the total capital contribution will be in rate base (i.e., 100% InnPower, 0% Hydro One). This treatment would be the same as any capital contribution that is paid entirely upfront and it will treat Hydro One as the lender. Hydro One will be compensated for its incremental financing costs through the interest InnPower will pay Hydro One to hold Hydro One harmless. OEB staff also notes that InnPower has estimated bill impacts of -3.92% for InnPower rate payers even when the full capital contribution is included in its rate base upfront, that is, rate payers' bills would not be adversely impacted even in the scenario with the largest bill impact to customers.

3.3 Hydro One's Proposed Capital Contribution Recovery Differential Sub-account and Capital Contribution Sub-account

Hydro One has stated that it is beyond its control whether or not a distributor elects to pay capital contributions over an installment period and Hydro One is unable to determine in advance whether a distributor would elect to defer its capital contribution or not. Its current approach is to assume that any customer contributions are received on day one, thus, lowering rate base and revenue requirement.[62] Hydro One argued that it will incur a revenue shortfall from any deferral of capital contribution payments if the proposed account (with two sub-accounts) are not established to capture the difference between the interest income Hydro One will receive at the CWIP rate per the TSC and its approved WACC on the unpaid capital contribution.[63] Hydro One argued that it should receive the WACC on the unpaid capital contribution to be kept whole.

Hydro One stated that the OEB's causation and prudency eligibility criteria[64] for establishing a new account have been met. In terms of causation, Hydro One indicated that the costs to be captured in the proposed account fall outside the base upon which Hydro One's rates have been derived.[65] Regarding prudence, Hydro One indicated it is applying to the OEB for approval of a fifteen-year period over which InnPower will make

[62] Exhibit I / Tab 1 / Schedule 20 / pp. 3-4
[63] Hydro One Argument-in-Chief / pp. 4-5
[64] Filing Requirements for Electricity Transmission Applications, Chapter 2 Revenue Requirement Applications, February 11, 2016, p.35
[65] Exhibit B / Tab 10 / Schedule 1 / pp.3-4

payments of the prudently incurred capital contribution to Hydro One, which is in accordance with TSC section 6.3.19.[66] Regarding materiality, over the 2020 to 2021 period, Hydro One forecasted $250 million of capital contributions from distributors and expects that the annual amounts it will record in this account will exceed its materiality threshold.[67]

(a) Submission – Installment Period Under Five Years

As discussed above, OEB staff submits that based on the review of the evidence, InnPower does not require an extended capital contribution installment period as a result of any breaches of debt covenants. If the OEB agrees, then OEB staff submits that there is no basis for Hydro One's proposed account.

As noted above, section 6.3.19 of the TSC states "…the transmitter shall permit the capital contribution to be provided in equal installments over a period of time not to exceed five years unless a longer period is approved by the Board. Where a distributor provides the capital contribution in installments, the transmitter shall charge interest on the unpaid balance at the Board's prescribed construction work in progress (CWIP) rate…." The TSC is clear that when the installment period does not exceed five years, the distributor shall pay the transmitter interest at the CWIP rate. As noted in the August 2018 Notice, the CWIP rate would address the incremental financing costs the transmitter will need to incur in receiving the capital contribution over time rather than through a single payment at the time the asset goes into service. OEB staff notes that the CWIP rate is considered the cost of financing incurred during the construction period of an asset. The OEB's prescribed CWIP rate is equal to the FTSE TMX Canada Mid-Term Bond Index All Corporate yield.[68] OEB staff interprets mid-term to be a period of three to five years, on average.

OEB staff submits that in the case where no account is established, Hydro One would still be required to record the full capital contribution as an offset to rate base when the asset goes into service, in order to achieve the intent of the TSC. Otherwise, Hydro One will earn WACC on the unpaid capital contribution in its rate base and earn interest income at the CWIP rate on the unpaid capital contribution from InnPower. Similarly, InnPower should record the full capital contribution in its rate base when the asset goes into service.

OEB staff recognizes that the OEB may approve a capital contribution installment period that exceeds five years in the future. OEB staff submits that Hydro One may request to establish an account at that time, if desired. OEB staff does not see any merit

[66] *Ibid.*
[67] Hydro One Argument-in-Chief / pp. 5-6
[68] https://www.oeb.ca/industry/rules-codes-and-requirements/prescribed-interest-rates

in establishing a generic account at this time given OEB staff's views on the eligibility criteria in establishing a new account discussed in the following section; and given that at this time, it is unknown whether the account, if approved, will be used in the future.

(b) Submission – Installment Period Exceeding Five Years

If the OEB approves InnPower's request to extend the capital contribution installment period to fifteen years, OEB staff would be more receptive to Hydro One's proposed account if they were subject to: (1) a change in the rate used in the Capital Contribution Recovery Differential Account from Hydro One's approved WACC to Hydro One's approved long-term debt rate; and (2) the satisfaction of the eligibility criteria for establishing new accounts. The Capital Contribution Recovery Differential sub-account would be needed to track any differences in rate that Hydro One would receive as compared to the CWIP rate .The Distributor Contribution sub-account would be needed to track the unpaid capital contribution balance for the purpose of calculating the amount to be recorded in the Capital Contribution Recovery Differential sub-account.

Hydro One argued that it should recover the WACC (proposed as 5.94%[69] in Hydro One's current ongoing transmission rate application[70]) on the unpaid capital contribution to be kept whole. OEB staff disagrees. The WACC includes a return on equity component. The August 2018 Notice stated that the OEB's intent is to hold the transmitter harmless. Allowing Hydro One to apply WACC on the unpaid capital contribution will allow it to earn a return. However, OEB staff acknowledges that the prescribed CWIP rate (at 2.88%[71] since Q3 2019) may not be sufficient to compensate Hydro One for the financing costs it incurs if the installment period for a capital contribution is greater than five years. OEB staff believes that for capital contributions with installment periods exceeding five years, Hydro One's approved long-term debt rate (proposed at 4.33%[72] in Hydro One's current ongoing transmission rate application) is more appropriate.

Causation

With regard to the causation criteria to establish a new account, OEB staff agrees that the costs to be captured in the proposed account fall outside the base upon which Hydro One's rates have been derived. However, OEB staff notes that the account is proposed to be disposed to Hydro One ratepayers as the TSC only allows Hydro One to

[69]Calculated as proposed in Hydro One's Argument-in-Chief, p. 212 for 2020-2022 Transmission Rate (EB-2019-0082) based on: (1) proposed deemed capital structure of 60% debt 3 (56% long-term and 4% short-term) and 40% common equity and (2) proposed long-term debt rate 4.33%, deemed short-term debt rate of 2.75%, and rate of return on equity of 8.52%.
[70] Transmission Rate Application for 2020-2022 (EB-2019-0082)
[71] https://www.oeb.ca/industry/rules-codes-and-requirements/prescribed-interest-rates
[72] Hydro One's Argument-in-Chief, p. 212 for 2020-2022 Transmission Rate (EB-2019-0082)

charge InnPower at the CWIP rate. OEB staff notes that this will not follow the beneficiary pays principle, which was a key consideration in the latest TSC amendments.[73]

Prudence

Regarding the prudence criteria to establish a new account, OEB staff notes that Hydro One proposed the "Loan Methodology" to record capital contributions as opposed to the "Net Book Value Reduction Methodology", which is the standard rate-making methodology. Hydro One indicated that the Loan Methodology will avoid corporate tax implications as a result of delayed capital contributions and will result in a lower amount recorded in the proposed account to be recovered from ratepayers.[74] Hydro One confirmed[75] that actual tax treatments for the two methodologies would be the same as that provided in its application,[76] where the Loan Methodology would result in $1.5 million recorded in the account and recovered from ratepayers and the Net Book Value Reduction Methodology would result in $4.6 million to be recorded in the account and recovered from ratepayers if the capital contribution were payable over five years and Hydro One were to recover the WACC on the unpaid capital contribution. OEB staff takes no issue with the use of the Loan Methodology if the account is approved.

In the Technical Conference, it was noted that even though Hydro One's proposed approach to capital contributions removes the full capital contribution from its rate base on day one, the full capital contribution relating to the BATU Project has not been removed from rate base in Hydro One's current ongoing transmission rate application[77] for 2020 to 2022 rates. Hydro One included $80.9 million in rate base (including the capital contribution) for the BATU Project in the rate application, but proposed that $70.7 million should be included in rate base (after removing the capital contribution) in this application.[78] Hydro One indicated that the transmission rate application discusses its process for redirection of investments to meet realities as new circumstances occur. If Hydro One does not have a prudent investment for the $10.2 million difference in rate base (i.e., $80.9 million versus $70.7 million), then the impact to ratepayers will be returned in an existing variance account. OEB staff acknowledges that the impact of the $10.2M difference in rate base is not material and may be captured in the existing variance account Hydro One referenced. However, OEB staff is of the view that if this account is approved, the impact of the difference should be recorded in this account as

[73] Notice of Amendments to Codes to Facilitate Regional Planning (EB-2016-0003), December 18,2018, p. 3
[74] Exhibit B / Tab 1 / Schedule 1 / pp. 7-9
[75] Exhibit I / Tab 1 / Schedule 19 / p. 2
[76] Exhibit B / Tab 9 / Schedule 1 / Attachment 1
[77] Transmission Rate Application for 2020-2022 (EB-2019-0082)
[78] Technical Conference Transcript / Vol. 1 / pp. 95-97

a matter of prudence and principle instead of potentially recording it in an existing variance account as proposed by Hydro One, if the amount was not prudently reinvested. The issue at hand is to determine the appropriate amount Hydro One should earn on the unpaid capital contribution either via rate base or this proposed account. To include $80.9 million in Hydro One's rate base when $70.7 million is actually being proposed would defeat the purpose of the account. As such, OEB staff submits that the impact of the $10.2 million difference in rate base should be recorded in the proposed Capital Contribution Recovery Differential Account, if approved.

Materiality

Regarding the materiality criteria to establish a new account, OEB staff is unclear whether the amount potentially recorded in the Capital Contribution Recovery Differential Account will exceed Hydro One's $3 million[79] materiality threshold. OEB staff calculated a high level estimate of approximately $1.5 million[80] excluding tax considerations, that may be recorded in the account annually. This calculation is based on the difference between Hydro One's proposed long-term debt rate and CWIP rate on $250 million of capital contribution over a two-year period, assuming all $250 million of capital contributions will be deferred for a minimum of at least a six-year period. As a result, OEB staff questions whether the materiality criteria would be met.

Nevertheless, OEB staff believes that the overarching purpose of the account to hold Hydro One harmless is an important consideration as Hydro One has no control over whether distributors will elect to defer their capital contribution payments. OEB staff also notes that approval of the establishment of the account does not guarantee disposition of the account. Any balance in the account will be subject to a prudence review prior to disposition. Therefore, OEB staff does not take issue with the establishment of the account if the OEB approves InnPower's request to extend the capital contribution installment period to fifteen years, subject to the change in the rate used in the account from Hydro One's approved WACC to its long-term debt rate.

[79] Exhibit B / Tab 10 / Schedule 1 / p. 3
[80] Assuming all $250 million is deferred over a 6-year period, the unpaid capital contribution in the first year would be $208 million. Apply 1.4% (the difference between the long-term debt rate of 4.33% and CWIP rate of 2.88%) to the unpaid capital contributions of $208 million equals $3 million over a 2-year period or $1.5 million per year.

3.4 Request to Exclude Revenue from Deferred Capital Contributions in Other Revenue Variance Account

In an undertaking and Argument-in-Chief[81], Hydro One clarified that the interest income earned on the unpaid capital contribution will be recorded as Other Income and will be recorded in its "External Station Maintenance, E&CS Revenue and Other Revenue Variance Account". This variance account trues up actual Other Income to the annual OEB-approved Other Income amount and returns the difference to ratepayers. Hydro One stated that recording the interest income on unpaid capital contributions in this variance account would reverse the impact of the OEB's objective to keep the transmitter whole by permitting the transmitter to recover those costs of deferring the capital contribution from distributors. Therefore, Hydro One requests an exemption to record the interest income earned on unpaid capital contributions in this variance account.[82]

Submission

OEB staff agrees with Hydro One's proposal to exclude interest income earned on unpaid capital contributions in the External Station Maintenance, E&CS Revenue and Other Revenue Variance Account. The interest income is a new stream of revenues that was not considered in Hydro One's current ongoing 2020 to 2022 rate application.[83] This stream of revenues should be netted against the financing cost Hydro One is expected to incur for funding the capital contributions over the installment period. In this case, the financing cost is expected to equal the interest income Hydro One earns as Hydro One is expected to be kept whole through these transactions. Therefore, a net of zero would be recorded in the variance account.

[81] Hydro One Undertaking JT1.10 and Hydro One Argument-in-Chief / pp. 6-7
[82] Hydro One Argument-in-Chief / p. 7
[83] EB-2019-0082

4 CONCLUSION

In conclusion, OEB staff submits that Hydro One's leave to construct for the BATU Project should be granted subject to the conditions of approval proposed in this submission. It appears, from OEB staff's review of the evidence, that InnPower does not require an extended capital contribution installment period as a result of any breaches of debt covenants. However, if this is not the case, clarification can be provided through the reply submission. In addition, OEB staff agrees that the deferral of the capital contribution payment should be treated as a loan, but disagrees with certain elements of Hydro One and InnPower's proposed approach on the regulatory treatment of the transaction. OEB staff is of the view that InnPower should include the full capital contribution in its rate base as an intangible asset when the asset goes into service and Hydro One should include the full capital contribution as an offset in its rate base when the asset goes into service regardless of whether Hydro One's proposed account is approved.

All of which is respectfully submitted.