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BY EMAIL AND COURIER

March 30, 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:

Re: EB-2018-0117 – Hydro One Networks Inc.'s Section 92 – Barrie Area Transmission Upgrade Project – Reply Submission

In accordance with Procedural Order No. 3, please find enclosed Hydro One Networks Inc.'s Reply Submission with respect to the Leave to Construct Application for its Barrie Area Trasnsmission Upgrade Project.

An electronic copy of this has been filed through the Ontario Energy Board's Regulatory Electronic Submission System (RESS). Hard copies will be held by Hydro One and made available upon request.

Sincerely,

ORIGINAL SIGNED BY JOANNE RICHARDSON

Joanne Richardson

cc: IESO, InnPower

REPLY SUBMISSION OF HYDRO ONE NETWORKS INC.

EB-2018-0117

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” or the “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 (to be known as the ‘E28’ and ‘E29’ circuits). 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 97 of the Act, Hydro One has sought approval for the forms of agreements that it will offer impacted landowners.

3. Hydro One, on behalf of InnPower, sought approval under section 6.3.19 of the Transmission System Code (“TSC”) for a 15-year contribution period for InnPower to make payments to Hydro One of its required capital contribution for the BATU Project – an increase from the five-year contribution period outlined in the TSC.

4. 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) the outstanding capital contribution unpaid from distributors; and ii) the interest revenue difference between the allowed interest charges that Hydro One can charge connecting distribution customers[1] and the weighted average cost of capital (“WACC”) that Hydro One would otherwise be entitled to earn to keep Hydro One whole[2].

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

5. The Independent Electricity System Operator ("IESO") is the only intervenor to this Application, but they did not make a submission. The only submission made was by Board Staff on March 18, 2020, in line with the timelines provided for by the OEB in Procedural Order # 3.

6. This is Hydro One's final argument for the BATU Project.

Project Background

7. Together, the line upgrade and associated station work are referred to as the Barrie Area Transmission Upgrade Project (the "BATU Project", or the "Project"). The Project is 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. Project work consists of upgrading two nine kilometre 115 kV single circuit transmission lines with a new 230 kV double circuit line, replace and upgrade end-of-life equipment at Essa Transformer Station ("TS"), and upgrade and expand Barrie TS to accommodate the upgraded 230 kV circuits.

Project Need

8. The BATU Project is 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.

9. The need for the BATU Project was identified through a rigorous and detailed integrated regional resource planning process led by the IESO. The IESO supports the BATU Project.

10. 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 Handoff Letter[3] issued on December 7, 2015 ("the Letter") underscored that the transformation capacity for the area is expected to be reached around 2020 (i.e. this year). 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

[3] Exhibit B, Tab 3, Schedule 1 Attachment 1

the broader electricity needs across the Barrie and Innisfil area and beyond. Consequently, the Letter recommended this applied-for Project solution and requested Hydro One to start development activities immediately.

11. InnPower, at the Technical Conference, reconfirmed that its service area is expecting to have sustained strong future load growth[4], and provided additional and updated load forecast information.

12. 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 230 kV supply, customers can expect to experience better reliability, due to the comparison between the current end-of-life assets in operation and the new assets and facilities that will be constructed.

13. 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.[5]

14. Board Staff supports that the proposed BATU Project is the most appropriate solution to satisfy the immediate need for load supply capacity and to address the end-of-life facilities issues. Additionally, the BATU Project will provide for the forecast medium-term load growth in the South of Barrie and Innisfil areas as well as allow capacity for future load connections. Specifically, as identified in Board Staff's submission, the BATU Project will accommodate load growth associated with future Metrolinx connections, such as the Allandale Traction Power Station, to facilitate the electrification of rail corridors[6].

Project Costs and Rate Impacts

15. Hydro One's evidence to date states that the total BATU Project cost is estimated at $91.0M[7], consisting of a capital in-service cost of $86.4M and OM&A removal

[4] Exhibit KT1.1 – InnPower Presentation
[5] Technical Conference, Volume 1, pgs. 24-44
[6] OEB Staff Submission pg. 10
[7] Exhibit B, Tab 9, Schedule 1, pg. 2

costs of $4.6M. Project capital costs have been identified in three main components, line work of $22.9M[8], and station work totaling $63.5M, consisting of two locations, Essa TS ($35.1M[9]) and Barrie TS ($28.4M[10]).

16. Hydro One uses the AACE classification framework, an industry standard methodology that attempts to compartmentalize accuracy of cost estimates based on the amount of underlying work that has been completed and the maturation of the estimation process. The project cost estimate for this Project is an AACE Class 3.

17. Hydro One's prefiled evidence estimated the cost responsibility component for the sustainment project (the avoided sustainment work[11]) allocated to the transmission rate pool as $49.3M[12]. This resulted in a customer contribution of $15.7M[13], based on cost responsibility of $41.7M[14] of the BATU Project costs.

18. On March 12, 2020, Hydro One provided an update to the cost of the avoided sustainment work. The revised AACE Class 3 estimate is $59.2M. Table 1 below shows the result and impact to the Project.

[8] Exhibit B, Tab 7, Schedule 1 pg. 1
[9] Exhibit B, Tab 7, Schedule 1 pg. 3
[10] Exhibit B, Tab 7, Schedule 1 pg. 2
[11] Exhibit B, Tab 7, Schedule 1 pgs. 3-6
[12] Exhibit B, Tab 7, Schedule 1 pg. 11
[13] Exhibit B, Tab 9, Schedule 1, pgs. 4-5
[14] Calculated as $91.0M (total Project Cost) less $49.3M (transmission pool cost)

Table 1 - Project Cost Impact of the Updated AACE Class 3 Avoided Sustainment Work Credit Estimate

($M's)	Prefiled Evidence	Updated March 2020 Estimate	$ Variance	% Variance
Total Project Cost (preferred alternative)	91.0	91.0	Nil	Nil
Sustainment Capital	56.2	59.2	3.0	5.3%
Sustainment Credit	41.7	46.8	5.1	12.2%
Customer Capital Contribution	15.7	14.4	1.3	8.2%
In-service Capital Rate Base Additions Hydro One Will Record	70.7[15]	72.0[16]	(1.3)	(1.8%)

i. As per Table 1 above, the AACE Class 3 equivalent avoided sustainment work estimate results in a $1.3M reduction in the estimated customer capital contribution for which InnPower is cost responsible, as compared to the prefiled evidence.
ii. The reduction in the capital contribution will increase the level of rate base additions that Hydro One is expected to capitalize, by an equivalent $1.3M or an increase of 1.8%, compared to the costs provided in this Application to-date.

19. This more refined avoided sustainment cost estimate does not impact the preferred alternative Projects costs. The cost estimate of the BATU Project remains unchanged at $91.0M (of which $86.4M represents capital in-service additions).

[15] $86.4M (capital costs) less $15.7M (capital contribution)
[16] $86.4M (capital costs) less $14.4M (capital contribution)

20. Hydro One's economic evaluation provides that the impact of the Project on Hydro One Transmission's ratepayers is negligible[17].

21. Board Staff submitted 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 and that Hydro One's pre-filed evidence demonstrates that the BATU Project will have no material adverse impact on transmission rates or customers. Board Staff further noted that Hydro One's letter of March 12, 2020, also demonstrates that 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.

Reliability and Quality of Service

22. The Application 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. The CIA concludes that the BATU Project will have no material impact on existing customers in the area. Board Staff submitted that they have no concerns with respect to the reliability and quality of service associated with the BATU Project.

Land Matters

23. Hydro One is seeking Board approval of the forms of agreements offered or to be offered to affected landowners. The forms of agreements included in the Application have been previously approved by the Board in the Power South Nepean Project leave to construct Application (EB-2019-077). In their Submission, Board Staff noted that they have reviewed the proposed forms of agreements and have no issues or concerns with Hydro One's proposed forms of land agreements and that the proposed agreements are consistent with the OEB's Filing Requirements for Electricity Transmission Applications.

[17] Exhibit B, Tab 9, Schedule 1 pg. 11

Conditions of Approval

24. Hydro One has reviewed Board Staff's five proposed conditions of approval[18] and has no concerns. Hydro One therefore submits that they should be approved as documented in Board Staff's Submission.

25. In conclusion, Hydro One submits that the BATU Project should be approved as filed.

Other Matters

Extension of Capital Contribution Payment Period

26. InnPower, in a separate letter of support[19] it filed with the OEB related to this Application, requested an extension to the capital contribution installment period from five to fifteen years. Hydro One, based upon the information provided to it at the time, supported InnPower's request.

27. Hydro One agrees with Board Staff's submissions and understands that InnPower will be providing their own comments on this matter.

Regulatory Treatment of Capital Contribution

HYDRO ONE'S PROPOSAL

28. 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 will avoid corporate tax and depreciation implications as a result of the delayed capital contributions[20] 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[21]).

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[18] OEB Staff Submission pg. 15
[19] InnPower's Letter of Support for Hydro One's Application dated October 16, 2019. The letter can be found in the OEB's webdraw for EB-2018-01117.
[20] Exhibit I, Tab 1, Schedule 19 parts b, d and e.
[21] Technical Conference Volume 1, pg. 13.

29. Hydro One's proposed Loan Methodology would record the net cost of the asset (Project cost less capital contribution payable, $72.0M) in its rate base once it is placed in service[22]. The customer, in this case InnPower, would record in their rate base any capital contribution paid to Hydro One, as it is paid. The balance of the Project's in-service additions[23] that Hydro One continues to fund (prior to the receipt of customers capital contribution payments) would be recorded in the first sub-account of the deferral account that Hydro One is requesting as described below.

30. As a result of recent changes to section 6.3.19 of the TSC, requiring the transmitter to "permit the capital contribution [from the distributor] 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", Hydro One is requesting approval for a generic regulatory account, the Capital Contribution Recovery Differential Account ("CCRDA"), with two sub-accounts. The first sub-account would record the outstanding capital contributions unpaid from distributors. The second sub-account would record the earnings shortfall that Hydro One would incur. The earnings shortfall is defined as the difference between the interest Hydro One is permitted to charge a distributor at the Board-approved Construction Work-in-Progress ("CWIP") rate, and the transmitter's OEB-approved WACC rate for return on rate base[24].

31. Hydro One's proposal would result in (i) Hydro One earning a return on rate base of any outstanding balance in capital contribution for the in-serviced asset, and (ii) the Distributor customer earning a return on rate base for any installment payments made on its capital contribution owing. This is in alignment with the Notice of Revised Proposal to Amend a Code (the "Notice").

> "…. 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." [emphasis added]

[22] In the case of the BATU Project, InnPower is requesting the Board approve a 15-year capital contribution deferral period.
[23] Equal to the Project's capital contribution payable by InnPower of $15.7M.
[24] The TSC section 6.3.19 permits a transmitter to only charge the deferring distributor the OEB approved CWIP rate on outstanding balances, however to keep the transmitter whole, the WACC must be allowed.

32. When the Distributor makes a capital contribution payment to Hydro One, the first sub-account balance would be adjusted per the accounting entries provided in Exhibit JT1.10, page 4 of 5**.**

33. As per the Notice, the Distributor would be allowed to recover the WACC on any capital contributions made to the transmitter and recover interest paid to the transmitter on any outstanding balance at the OEB Prescribed CWIP rate, per standard rate making procedures.

34. The main purpose of the deferral account being proposed by Hydro One is to ensure that Hydro One is kept whole, to minimize the impact on transmission rate payers, and ensure that Hydro One's shareholders are neither financing nor subsidizing the shareholders and ratepayers of a distributor.

35. This methodology will also address the Board concerns on page 17 of the August 2018 Notice that said "under the transmitter's proposed approach (referencing the proposal made at that time), to some extent, it would get paid the cost of capital twice." In the August 2018 proposal, a deferral account approach was not requested. The Board was concerned that the transmitter would receive both the WACC on the unpaid balance of any capital contributions outstanding that remained in the transmitter ratebase and also interest payments, at WACC, on capital contributions. Under the methodology proposed in this Application, this will not be an issue.

BOARD STAFF'S PROPOSAL

36. Board Staff agrees that the deferral of capital contribution payments should be treated as a loan, as that is the nature of the transaction.[25] However, Board Staff disagrees with certain elements of Hydro One's proposed approach on the regulatory treatment of the transaction. Board Staff's submission is that Hydro One should remove the full capital contribution from its rate base when the asset goes into service, and that, in this case, InnPower would include the **full** capital contribution in its rate base as an intangible asset at that time.

37. Board Staff proposed that if InnPower paid the capital contribution to Hydro One in installments, the interest rate on the outstanding balance should be the Board's prescribed CWIP rate (as per TSC 6.3.19) if the capital contribution deferral period

[25] OEB Staff Submission pg. 21

is five years or less, and Hydro One's weighted average long-term debt rate if the contribution deferral period is greater than five years. In its submission, Board Staff provided no rationale as to why the two different interest rates are proposed or would be appropriate for an asset post in-service, apart from that included in paragraph 50 below.

38. Board Staff proposed that InnPower be allowed to earn its WACC on 100% of the capital contribution, including that portion that remains outstanding. Hydro One would receive only interest income from InnPower to compensate for its incremental financing costs on the unpaid balance.

HYDRO ONE'S SUBMISSION

39. Hydro One disagrees with certain aspects of Board Staff's submission.

40. A key element to Board Staff's submission on the TSC amendments is that "Hydro One is also acting in the role of the external lender to InnPower" and Board Staff submit that the regulatory treatment of capital contributions should be the same as if InnPower borrowed the required funds externally[26]. As a result of the amendments, Hydro One submits that the TSC is requiring Hydro One to act like a financial institution by funding InnPower's or future distribution company's customers. However, unlike a bank, Hydro One has no discretion as to whether it wants to lend money to this customer, how much it wants to lend, and at what rate.

41. Board Staff's proposal, to allow InnPower to earn its WACC on is unpaid capital contributions and for Hydro One to receive interest payments at the CWIP rate or at its long term debt rate, results in Hydro One's shareholder taking on additional financing risks at a pre-determined, non-negotiated rate. Board Staff's proposal also results in InnPower's shareholder earning interest income on capital contributions they have not yet paid (e.g. they would earn the WACC on the capital contribution still owed to Hydro One, while not providing funds of their own).

42. InnPower is on record that they made preliminary enquiries with a major financial institution, which indicated that the institution "most likely will not loan" the funds necessary (at any interest rate) to InnPower for immediate payment of the required

[26] OEB Submission, pg. 21

capital contribution.[27] However, if the Board expects the benefits of the Loan Methodology be provided to ratepayers, then it must also be willing to compensate Hydro One's shareholders for the additional risk it will incur by providing these riskier-type loans to distributors. This would be achieved by the Board's approval of the CCRDA.

43. Hydro One submits that Board Staff's proposal also breaches the OEB's Methodology of the Cost of Capital for Ontario's Regulated Utilities (EB-2009-0084). This proposal would result in Hydro One loaning at least 80% of the capital contribution to the distributor (if the distributor pays 20% upfront at in-service and the remaining four payments made in equal annual installments – assuming a 5-year deferral period is approved) and the distributor including 100% of its capital contribution as ratebase. However, ratemaking principles allow a debt-to-equity ratio of only 60:40.

44. The idea of Hydro One to take on a financial institution role to protect the *shareholder, not ratepayers,* of a distributor has never been discussed or socialized with the Board or any other stakeholders. It is extremely novel and counter-intuitive.

45. Requiring Hydro One to take on a financial institutional role on behalf of other distributors and not recover the OEB-approved WACC has the potential to shift Hydro One away from the regulated 60:40 debt-to-equity capital structure which the OEB deems applicable for all utilities. The additional debt may potentially be credit negative to Hydro One Transmission, and as a result negatively impact Hydro One's cost of debt and impose additional costs on transmission ratepayers.

46. Board Staff, on page 23 of their submission, says that they believe that their "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". Hydro One strongly disagrees. The OEB's TSC amendments intended to keep the transmitter whole, as quoted by Staff in their submission on page 23 ("The OEB's intent is to hold the transmitter (and its customers) harmless"). Board Staff's proposal does not accomplish this. Board Staff's proposal would result in Hydro One Transmission having to borrow funds and deploy its shareholder equity

[27] Technical Conference. Pg. 93, line 15 - 16

to finance third-party distribution companies. To hold Hydro One whole on its in-service capital spend, either the full WACC is required on any outstanding balance owed by the distributor[28] or the distributor will be required to pay its full capital contribution upon in-servicing the asset. Furthermore, Hydro One's proposal is in compliance with OEB's Methodology of the Cost of Capital for Ontario's Regulated Utilities (EB-2009-0084).

Capital Contribution Recovery Differential Account ("CCRDA")

47. As Board Staff noted on page 23, "Hydro One 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." This is correct and is true even more so under Board Staff's proposal <u>where the distributor will be able to earn a full return on rate base (at WACC) on an unpaid capital contribution</u>. This would allow a distributor to earn its WACC on an asset and pay Hydro One only a lower CWIP rate or long-term debt rate on the unpaid balance, at no risk to the distributor's shareholders, while imposing costs or risks with no return to the transmitter. This would encourage distributors to defer capital contribution payments.

48. Board Staff argue that the TSC is clear that when the capital contribution installment period does not exceed five years, the distributor shall pay the transmitter interest at the CWIP rate. This code amendment was written assuming that the standard NBV Methodology is used. As discussed in Exhibit B, Tab 9, Schedule 1, under this traditional methodology, Hydro One would be reducing the NBV of the assets as the contributions are received, thus the outstanding balance of the capital contribution would remain in Hydro One's rate base until the distributor pays the full cost. This means that under the NBV Methodology, Hydro One would receive its WACC on the unpaid balance, therefore a deferral account would not be required. Under this approach, Hydro One agrees that the deferral account to capture the difference between the two interest rates is not required. If the Board decides not to approve the deferral account, Hydro One would continue to account for capital contributions using the NBV traditional methodology. However, this

[28] In accordance with the Fair Return Standard and capital structure parameters that an utility finances itself as outlined in Report of the Board on the Cost of Capital for Ontario's Regulated Utilities EB-2009-0084

does produce a negative impact on transmission ratepayers, as outlined in Exhibit B, Tab 9, Schedule 1.

49. Under the Loan Methodology, the only means to achieve the intent of the TSC is to approve the establishment of the CCRDA as outlined in this Application and in this submission. The CCRDA is required regardless of whether a distributor pays its capital contribution over the five year period allowed in the TSC, or applies for an extended period. Regardless of the recovery period, Hydro One and/or transmission rate payers would be adversely impacted if the CCRDA is not approved.

50. Board Staff acknowledge that the prescribed CWIP rate 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. Board Staff suggest that for periods exceeding five years, Hydro One's long-term debt rate is more appropriate. Board Staff disagreed with Hydro One's use of the WACC rate on unpaid balances, saying that doing so would allow Hydro One to earn a return on unpaid capital contributions.

51. Hydro One agrees with Board Staff that it would be earning a return on the unpaid capital contribution. However, Hydro One is still funding that contribution until payment is received. To encourage distributors to delay payment of their capital contribution, in order for their shareholder to gain income, is entirely inappropriate, and Hydro One submits that this is not the intention of the TSC. As the capital contribution remains unpaid, in effect, the funding of the capital asset would remain with the transmitter, and the transmitter should therefore be allowed to earn its approved return on capital.

52. Hydro One disagrees with Board Staff assertion[29] that an OEB-mandated capital contribution by itself will meet the definition of a financial instrument under US Generally Accepted Accounting Principles and International Financial Reporting Standards. Per US GAAP ASC 825-10-20, a financial instrument is: cash, evidence of an ownership interest in an entity, or a contract that both:

   a) Imposes on one entity a contractual obligation either:
      1. to deliver cash or another financial instrument to a second entity,

[29] OEB Submission, pg. 22

2. to exchange other financial instruments on potentially unfavourable terms with the second entity.

b) Conveys to that second entity a contractual right either:
   1. To receive cash or another financial instrument from the first entity
   2. To exchange other financial instruments on potentially favourable terms with the first entity.

The capital contribution itself (the reduction to the asset/rate base) does not meet the definition of a financial instrument; however, the corresponding receivable does. The proposed regulatory account is requested because historically, capital contributions were being funded via cash upfront; however, in the future, many will be funded through receivables from distributors. Therefore Hydro One disagrees with Board Staff's conclusion that a regulatory account is not needed.

53. The regulatory account provides Hydro One with the means of tracking the payments from distributors and keeps Hydro One whole in the scenario where the contribution is deferred by the distributor but reduced fully from rate base as if the cash was received upfront. The annual amount recorded in the CCRDA will be the difference between the required revenue to recover cost of capital to Hydro One for financing the deferred capital contribution and the interest received from the distributor.

Meeting Threshold for Establishment of a Deferral Account

54. The OEB's filing requirements require that the following eligibility criteria must be met for the establishment of a deferral account:
    - Causation - The forecasted expense must be clearly outside of the base upon which revenue requirement(s) were derived.
    - Materiality – The forecasted amounts must exceed the OEB-defined materiality threshold and have a significant influence on the operation of the transmitter. Otherwise they must be expensed in the normal course and addressed through organizational productivity improvements.
    - Prudence - The nature of the costs and forecasted quantum must be reasonably incurred, although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant must provide evidence demonstrating why the option selected

represents the cost-effective option (not necessarily least initial cost) for ratepayers.[30]

55. Board Staff agrees that Hydro One has satisfied the regulatory account criteria of causation, but Board Staff commented that the amounts Hydro One would be recording in that deferral account would be disposed to Hydro One Transmission's ratepayers which does not follow the beneficiary pays criteria[31]. Board Staff fall short of providing a direct comment on the proposed solution, but they seem to indicate that these amounts should be charged to the customer. Hydro One is unsure what Board Staff's intention is from this comment. Is Board Staff suggesting that the costs recorded in the deferral account would be collected from InnPower, and that InnPower would establish a rate rider at a future date to subsequently collect from their customers? Hydro One acknowledges the TSC amendments appear to assume that any distribution customer unpaid capital contribution would remain in the transmitter's rate base, implying the recovery should be from transmission rate payers. However, Hydro One is not opposed to an alternative recovery of any balance in the regulatory account following the beneficiary pays principle.

56. In terms of materiality, the impacts of the OEB's amendments to the TSC are something Hydro One believes are likely to be material to its operations. Over the 2020 to 2022 period, Hydro One is potentially exposed to projects that will require capital contributions from distributors of over $200 million[32,33]. As such, Hydro One expects that the annual amounts it will record in this account will satisfy the Board's deferral and variance account materiality threshold. Regardless, in order to implement the Loan Methodology, approval of the CCRDA required. The Loan Methodology provides rate benefits to transmission customers as discussed in Exhibit B, Tab 7, Schedule 1 which will not be available if the account is not approved.

57. In terms of the criterion for prudency, Board Staff agrees with the use of the Loan Methodology to record capital contributions. However, Board Staff argues that the impact of the $10.2M (revised to $8.9M as shown in Table 1 of this submission)

[30] Chapter 2 Filing Requirements for Electricity Transmission Applications, pg. 35
[31] OEB Staff Submission pgs. 25-26
[32] Technical Conference Volume 1, pg. 79
[33] EB-2019-0082, Exhibit B, Tab 1, Schedule 1, pgs. 15 to 18

difference in rate base should be recorded in the proposed CCRDA, if approved.[34] Hydro One disagrees. Hydro One already has an asymmetrical In-Service Capital Additions Variance account that tracks the impact on revenue requirement of any in-service addition shortfall compared to OEB approved amounts within a capital envelope.[35] The BATU Project's cost variance would be managed through the redirection process of which Hydro One has already provided details in its evidence in EB-2019-0082. The variance in Project cost between the rate filing and the s.92 would either fund prudent investments that would be subject to OEB review at Hydro One's next Transmission rates application or be returned to ratepayers via the In-Service Capital Additions Variance account. Recording the difference in rate base in the CCRDA, as suggested by Staff, would represent a double counting of changes in in-service additions and is not only unnecessary but also inappropriate.

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

58. During the undertaking process, and in its Argument-in-Chief, Hydro One asked for an exemption from recording the interest income earned on unpaid capital contributions in its *'External Station Maintenance, E&CS Revenue and Other Revenue Variance Account'*.

59. The interest income Hydro One would earn on unpaid capital contributions would be recorded as Other Income and therefore would be subject to the Board-approved Other Revenue Variance Account.

60. Including the 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 the costs of deferring the capital contribution from distributors. In order to not circumvent the Board's aim regarding the TSC code amendments, Hydro One submits that exempting Hydro One from including this type of income in its calculation of the amounts recorded in Hydro One's '*External Station*

[34] The $10M variance Board Staff is referencing is within the estimating range of error (+30% / -20%).
[35] EB-2019-0082. Exhibit H, Tab 6, Schedule 1, pgs. 13 - 14

Maintenance, E&CS Revenue and Other Revenue Variance Account' is appropriate and warranted.

61. In its Submission, Board Staff agreed 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, noting that the interest income described in this Application is a new stream of revenues that was not considered in Hydro One's current ongoing 2020 to 2022 rate application[36]. Furthermore, Board Staff noted that the financing cost is expected to equal the interest income and therefore, a net of zero would be recorded in the External Station Maintenance, E&CS Revenue and Other Revenue Variance Account. At this stage, that statement is premature in the absence of an OEB decision on what the rate of return allowable is on the capital contribution balances owing to Hydro One. For example, if the OEB approves the CWIP to be the rate of return that Hydro One may earn on the financing loan arrangement to distributors for these types of projects, then the revenue stream earnings will not align with the average cost of financing that Hydro One will actually be incurring to provide these loans. Hydro One states that by Board Staff having made this statement in their submission, Board Staff have not considered this misalignment in the context of Hydro One's actual financing operations.

Summary

62. 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, allowing for future load connections including those that would facilitate the anticipated electrification of Metrolinx's rail line services to Barrie, and addressing end-of-life assets.

[36] OEB Staff Submission pg. 28

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

64. 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). Hydro One submits that the request for a deferral account is reasonable and is commensurate with the additional risk to which the TSC is subjecting the utility for these types of distribution-customer driven projects. The Loan Methodology and its associated CCRDA benefit ratepayers. Regulated utilities should not be penalized, in this case if the CCRDA is not approved, for seeking methodologies that will aid in this outcome. Additionally, Hydro One submits that it is appropriate for the Board to direct Hydro One not to include the interest 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'*. Hydro One requests that direction and approval.

All of which is respectfully submitted.

ORIGINAL SIGNED BY MICHAEL ENGELBERG

Michael Engelberg

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Hydro One Networks Inc.