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BY E-MAIL

April 8, 2020

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

Dear Ms. Long:

EB-2019-0151 – Hydro One Networks Inc. Update on Costs Tracked in Waasigan Transmission Tracking Deferral Account

Hydro One Networks Inc. (“Hydro One”) is writing this letter to update the Ontario Energy Board (“OEB”) on the status and ongoing activities related to the Waasigan Transmission Line Project (“the Project”).

BACKGROUND

The Project (formerly the Northwest Bulk Transmission Line Project) is a priority project identified in the 2013 Long Term Energy Plan. In January 2014, the OEB amended Hydro One Transmission’s licence to include the following condition:

“The Licensee shall develop and seek approvals for the expansion or reinforcement of a portion or portions of the Licensee’s electricity transmission network in the area west of Thunder Bay (the “Northwest Bulk Transmission Line Project”). The scope and timing of the Northwest Bulk Transmission Line Project shall be in accordance with the recommendations of the Ontario Power Authority.”

In March 2015, the OEB approved Hydro One’s request to establish the North West Bulk Transmission Line Deferral account (EB-2014-0311). The account recorded expenses related to preliminary engineering, design and environmental assessment work associated with the Project prior to the point from which the costs would qualify to be recorded in construction work-in-progress. \$800K had been recorded in that account.

In December 2018, Hydro One requested to change the nature of the North West Bulk Transmission Line Deferral account, from a deferral account to a tracking account, and to change the name of the account to the Waasigan Transmission Deferral Account. This request was a result of the October 2018 IESO letter that confirmed that supply needs West of Thunder Bay and North of Dryden will be met by electricity infrastructure. The letter also recommended that Hydro One begin development work on Phases 1 and 2 of the Project as soon as possible to shorten the Project lead time required to have the assets ready to be in service to meet the electricity capacity needs when they materialize (expected mid-2030s but could occur earlier). As a result, Hydro One was now able to record its development expenditures in construction-work-in-progress. The OEB approved these requests in September 2019.

CURRENT STATUS

Hydro One continues to proceed with development work on the Project. In Hydro One's 2020-2022 Transmission Rates Application (EB-2019-0082), \$35M was forecast in an Investment Summary Document (ISD SS-08) as the cost to complete development work for the Project. This was based on an AACE Class 5 accuracy cost estimate (+100%/-50%). In February 2020, Hydro One re-estimated its development cost forecast, based on the initial Environmental Assessment work and using new information attained since 2018. Substantial cost increases are expected to be recorded in the CWIP tracking account above the costs provided in EB-2019-0082. The following factors are contributing to expected increases in costs:

- In October 2018 the Ministry of Energy Northern Development and Mines delegated the duty to consult by issuing a list of 15 Indigenous Communities and organizations to engage with. Hydro One initially estimated that eight communities would need to be consulted, based on limited mapping and other information it had available at the time. Since issuance of the duty to consult, six additional communities have asserted their rights, thereby changing the Project's scope.
- Another change in the scope of the Project is the formation of the Indigenous Transmission Limited Partnership (ITLP). ITLP, a consortium of seven First Nations, represents the collective environmental and economic interests of the seven represented communities. ITLP offers administrative benefits to consultation, but additional capacity funding, beyond that required for the individual communities, is required to administer the partnership.
- Lessons Learned from the Lake Superior Link project in 2018 are informing this Project. In particular, it was determined that the Project must have a high level of effort placed on Public and Indigenous consultation to ensure that regulators, such as the Ministry of the Environment, Conservation and Parks and the Ministry of Natural Resources and Forestry, will deem the consultation adequate.
- Interest during construction – interest will be applied, using the Board's CWIP interest rates, for all expenditures undertaken from January 1, 2019, until the project is placed in-service.

As a result, Hydro One expects the \$35M initial forecast of development costs to be in the higher range of the AACE class estimate (e.g. up to \$70M).

Hydro One continues to work closely with the IESO to define the timing of the Project. The IESO is currently working on an updated demand forecast for the area and expect to provide some clarity on the need for the Project by the end of the summer.

Hydro One will continue to record the Project costs in its CWIP and will track and report the balances in the Waasigan Transmission Tracking Deferral Account. Hydro One will move these costs to its rate base upon in-serving of the transmission line. Recovery for costs will be included in a future revenue requirement application.

Sincerely,

A handwritten signature in brown ink, appearing to read 'Joanne Richardson', is written over a faint, light blue circular background.

Joanne Richardson