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Joanne Richardson

Director – Major Projects and Partnerships
Regulatory Affairs

BY EMAIL AND RESS

September 15, 2021

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

Dear Ms. Long:

EB-2021-0169 – Hydro One Networks Inc. Request for an Accounting Order to establish a Regulatory Account for Affiliate Transmission Projects (ATP) – Reply Submission

In accordance with Procedural Order No. 1 and the Ontario Energy Board letter dated September 2, 2021, permitting Hydro One Networks Inc. a time extension, please find enclosed Hydro One's reply submission on the ATP Account Application.

An electronic copy of the reply submission has been submitted using the OEB's Regulatory Electronic Submission System.

Sincerely,

A handwritten signature in dark ink, appearing to read "Joanne Richardson", written over a light blue horizontal line.

Joanne Richardson

c/ EB-2021-0169 Intervenor (Electronic only)

HYDRO ONE REPLY SUBMISSION

1.0 INTRODUCTION

On May 28, 2021, Hydro One Networks Inc. (“Hydro One”) applied to the Ontario Energy Board (“the Board” or “OEB”) for an accounting order to establish a new regulatory account, the “Affiliate Transmission Projects Account” (“ATP Account”). The ATP Account will apply where:

- (i) Hydro One has or will receive a letter from the Independent Electricity System Operator (“IESO”) identifying transmission system needs, and/or an Order in Council or direction of the Minister of Energy, Northern Development and Mines¹ (the “Ministry”) for the development or construction of a transmission project; and
- (ii) all or part of the project is expected to be owned by and included in the rate base of a New Partnership, as a licenced transmitter, such that the ATP Account Project will not form part of Hydro One’s rate base.

The ATP Account will apply to future projects that meet the above criteria as well as three projects currently under development for which Hydro One has received a letter from the IESO and/or Ministry directive, including: the Waasigan Transmission Line, the Chatham to Lakeshore Transmission Line, and the Lambton to Chatham Transmission Line².

The Application requests that the ATP Account be effective starting on May 28, 2021, and capture costs in two sub-accounts. The first, a deferral account, will record costs related to project preparation work³ conducted by Hydro One prior to the point from where

¹ Since the original filing of this Application, the Ministry’s name has been changed to the Ministry of Energy.

² The Lambton to Chatham Project will be renamed the St.Clair Transmission Project

³ These expenditures would include expenses such as preliminary design/engineering and planning, cost estimation, public engagement/consultation, routing and siting, real estate assessment costs, and environmental assessment work.

1 projects qualify to be recorded in construction-work-in-progress (“CWIP”). The second,
2 is a tracking account that will take effect after the project meets Hydro One’s capitalization
3 criteria. Project costs would be capitalized in CWIP and those CWIP costs would be
4 tracked, in a sub-account of the ATP Account, until they are transferred to a New
5 Partnership once the project is at or near its in-service date. The transfer will be subject to
6 OEB approval pursuant to section 86 of the OEB Act.

7
8 On July 12, 2021, the OEB issued *Procedural Order (“P.O.”) No.1 and Decision on*
9 *Interim Order* establishing the ATP Account on an interim basis to enable Hydro One to
10 record costs as of May 28, 2021, and in advance of a final decision.

11
12 Hydro One submits that the ATP Account should be approved as proposed. The ATP
13 Account is proposed by Hydro One in response to a unique circumstance. First, the projects
14 identified in this Application and future projects that will be subject to the ATP Account
15 are large complex greenfield projects that arise out of system planning needs identified and
16 encapsulated in either a direction from the Ministry or a letter of need from the IESO. These
17 projects have a long timeline to completion, starting at development, to leave to construct
18 approval, and then subsequent construction and energization (in-service) with the timing
19 of when the expenditures will occur and their magnitude being uncertain. Second, and more
20 significant, is that the costs will be outside of the base upon which Hydro One’s revenue
21 requirement is derived. Instead, the costs recorded and tracked in the ATP Account will be
22 included in the rate base of a separate licenced transmitter being a new partnership
23 consisting of Hydro One and non-Hydro One commercial organizations, including
24 Indigenous-owned entities (the “New Partnership”). The New Partnership will own the
25 transmission line assets and apply to the OEB for a revenue requirement distinct and
26 separate to that of Hydro One Transmission. The ATP Account permits the costs to be
27 transparently recorded and deferred, satisfies the OEB eligibility criteria of causation,
28 materiality and prudence, is consistent with the regulatory treatment of other third party
29 transmission projects and provides for regulatory efficiency.

Submissions were received from: OEB Staff, the Power Workers Union (“PWU”), Energy Probe (“EP”), Chippewas of Kettle and Stony Point First Nation (“CKSPFN”), Gwayakocchigewin Limited Partnership (“GLP”), and School Energy Coalition (“SEC”). Submissions from the Association of Major Power Consumers in Ontario (“AMPCO”) were also received after the deadline for intervenor submissions. Similar to the submissions of most intervenors, Hydro One has structured the balance of its Reply Submission (“Reply”) consistent with the OEB’s approved Issues List⁴. Thereafter, Hydro One will specifically address the submissions made by GLP and CKSPFN regarding the types of project costs to be recorded and/or tracked in the ATP Account and SEC’s submission that the Board deny the proposed ATP Account request.

2.0 HYDRO ONE’S REPLY TO INTERVENOR SUBMISSIONS BY ISSUE

Issue 1 – Is the proposed regulatory account appropriate?

Hydro One submits that the proposed ATP Account is appropriate and the OEB interim-approval of the ATP Account should be made final. In this regard, it is important to consider the two criteria governing the scope of the ATP Account both singularly and in tandem. As indicated, the ATP Account will apply to costs incurred in respect of a project that is the subject of a letter from the IESO or direction from the Ministry. With respect to the IESO letter to Hydro One identifying transmission system needs, the IESO is responsible for maintaining the reliability of the IESO-controlled grid, including conducting transmission planning (s. 6 (1) (c) of the *Electricity Act, 1998*). Where a need is identified in regional planning, consistent with Section 21.2.2 part c of its OEB licence, the IESO sends an “urgent letter” to Hydro One as a lead transmitter notifying the transmitter of any necessary investment in transmission facilities⁵. The direction from the Ministry arises by virtue of authority under the *Ontario Energy Board Act* to establish

⁴ EB-2021-0169 – OEB’s Decision on the Application’s issues list (“Issues List”) - July 21, 2021

⁵ EB-2021-0169 Application, p.1

1 priority transmission projects and to direct the OEB to amend Hydro One's licence to
2 require the planning and development of such a project. The projects arising in the latter
3 circumstances are non-discretionary projects.

4
5 Although the IESO letter does not have the same binding force as a Ministerial directive,
6 the IESO's letter and planning request arises by virtue of the IESO's licence and its system
7 planning function and is provided based upon the public interest. While OEB staff raised a
8 concern as to the level of analysis underpinning an IESO letter, Hydro One notes that the
9 IESO is providing such a letter as part of its responsibility to conduct system planning in
10 the public interest and as part of its regulatory obligations, which one can reasonably
11 conclude that the IESO would not lightly discharge. Accordingly, such a request cannot be
12 ignored and project planning and development activity must be undertaken with Hydro
13 One acting prudently in that regard. The implication of the foregoing is that transmission
14 projects arising from such requests are not occurring in the ordinary course of transmission
15 planning by Hydro One. Similar to the three transmission projects set out in this
16 Application, projects of this kind are large and complex projects that extend over a number
17 of years often beyond established plan periods⁶.

18
19 As noted, with respect to the second criteria, the project costs will be eligible to be recorded
20 or tracked in the ATP Account where a project is expected to be owned by and included in
21 the rate base of a New Partnership. The ATP Account Project will not form part of Hydro
22 One's rate base. The second criteria, coupled with the above circumstance, further
23 perpetuates the need of the ATP Account when regulatory implications are considered. In
24 the absence of the ATP Account, Hydro One would be required to factor into its system
25 planning large multi-year projects that do not arise in the ordinary course of planning even
26 though that project would not form part of the Hydro One transmission system or its
27 revenue requirement. It is not conducive to transmission system planning to set aside or
28 alter established transmission system plans developed in the ordinary course of planning.

⁶ EB-2021-0169 Application, page 2

1 Hydro One's transmission plans are formed to take into account the capital expenditure
2 requirements to maintain the reliability and quality of service of the electricity system,
3 ensure the system can meet future customer supply demands and as well to meet the
4 requirements of the Transmission System Code. Large projects, such as those
5 contemplated to use the ATP Account, if unplanned, will put a major strain on capital plans.
6 In order to execute these projects, without the ATP Account, Hydro One would need to
7 divert expenditures away from other important investments which could have long term
8 consequences on the transmission system. It is instead appropriate for Hydro One to retain
9 its transmission plans and to account for and track separately transmission projects arising
10 unexpectedly from the system need described above. With the ATP Account in place, costs
11 that would not otherwise be Hydro One's for rate purposes will be segregated providing
12 transparency throughout the applicable regulatory processes of leave to construct, Section
13 86 (upon transfer to the New Partnership) and the approval of the appropriate transmission
14 revenue requirement.

15
16 In support of the foregoing, OEB Staff recommended that "Hydro One's application for an
17 accounting order to establish the ATP Account should be approved"⁷, and in closing said
18 that it, "would tend to increase efficiency by separating the recording and tracking of costs
19 associated with a project that may enter service as part of a partnership between Hydro One
20 and one or more partners so that they are clearly identifiable for review at the appropriate
21 time as part of an application by the transmitter that will own the asset when it enters
22 service"⁸.

23
24 Additionally, OEB Staff noted for the Board's attention that by approving the request -
25 "Establishing the account does not prejudice the OEB's future review of projects and

⁷ OEB Staff Submission, page 14.

⁸ OEB Staff Submission, page 14.

1 determination of whether the project costs that are recorded and tracked in the ATP
2 Account are prudent or should be recovered from ratepayers”⁹.

3
4 The PWU submitted that the Board should approve Hydro One’s request for an accounting
5 order authorizing Hydro One to establish a new regulatory account (i.e., the ATP Account)
6 because it would add more transparency, lead to increased regulatory efficiency and also
7 produce a more efficient execution of projects over the current practice¹⁰. The PWU
8 concluded that, “without the ATP Account, [Hydro One’s] ability to execute projects and
9 meet in-service dates requested by the IESO or the Minister of Energy would be
10 compromised”¹¹. Similarly, AMPCO provided its view that “the account provides
11 enhanced transparency and is an improvement over the current methodology used to track
12 project costs”¹².

13
14 CKSPFN and GLP did not take issue with the general approach proposed for the regulatory
15 account, provided that the regulatory account is inclusive of both line costs and station
16 costs. Hydro One will address and respond to the treatment of line and station costs in
17 Section 3.0 of this Reply.

18
19 As part of opposing the ATP Account, SEC disagrees with Hydro One’s position that it
20 would either need to defer commencement of the qualifying project pending OEB capital
21 expenditure approval, or that it will have to re-prioritize projects within approved capital
22 expenditure envelopes¹³. SEC is incorrect in this regard. Hydro One attempts to manage
23 its business planning process within approved capital envelopes. Therefore, if new
24 transmission projects such as Lambton x Chatham are initiated, there is a limited capital
25 expenditure budget to draw on to launch the projects, and Hydro One would have to redirect

⁹ OEB Staff Submission, page 15

¹⁰ PWU Submission, page 3-4

¹¹ PWU Submission, page 3

¹² AMPCO Submission, page 5

¹³ SEC Submission, page 4

1 funding away from other important transmission work. Large greenfield projects, such as
2 those expected to be included in the ATP Account, can cause a major impact on the overall
3 capital spending budget plan. Conversely, the approval of the ATP Account would mean
4 that the approved capital portfolio, which is required to maintain, operate and construct all
5 other Hydro One assets, would not be exposed to reduction (and the associated risk of not
6 performing this work) resulting from prioritizing the costs associated with undertaking
7 ATP Account-type projects such as project deferral.

8
9 EP submits that Hydro One has not established a need for the ATP Account, indicating that
10 in the past, Hydro One has built other affiliate transmission projects without an ATP
11 Account¹⁴. SEC makes similar arguments with regard to prior projects¹⁵. It is important to
12 note that the two projects in question, that ultimately formed affiliate transmission entities,
13 are the Bruce to Milton and Niagara Reinforcement projects. These are not an appropriate
14 comparison to the ATP Account projects identified in this Application or those potentially
15 arising in the future. First, the Bruce to Milton and Niagara Reinforcement projects were
16 predominantly developed and constructed over a decade ago. In addition, both projects
17 were undertaken with the intention that they form part of Hydro One's rate base and were
18 at or near completion of construction when an equity interest was offered to Indigenous-
19 owned entities. Furthermore, contrary to these two projects, the ATP Account Projects
20 have the stated purpose at the outset of being transferred to a New Partnership. Since the
21 time when Bruce to Milton and Niagara Reinforcement projects were developed and
22 constructed, policies have changed both for the OEB and Hydro One regarding the
23 promotion of Indigenous partnerships¹⁶. As discussed in Exhibit I, Tab 4, Schedule 2,
24 Hydro One recognizes the importance of providing investment opportunities for
25 Indigenous communities to partner with Hydro One on large greenfield transmission lines

¹⁴ EP Submission, page 3

¹⁵ SEC Submission, page 4

¹⁶ EB-2010-0059

1 that tend to traverse large portions of traditional lands. By SEC's own admissions, Hydro
2 One's current corporate strategy is laudable¹⁷. SEC indicates that it strongly supports that
3 strategy and submits that nothing in its submissions should be interpreted as suggesting
4 that Hydro One's efforts on this front be weakened or reduced. However, by ignoring the
5 fact that the ATP Account projects will be part of a partnership and that the ATP Account
6 will enable the transparent tracking of costs until the project is transferred, SEC is in effect
7 diminishing the facilitation of those partnerships and their ultimate recognition from a
8 regulatory perspective.

9
10 **Issue 2 – Has Hydro One complied with all the filing requirements necessary to**
11 **establish an Accounting Order, including, without limitation, the eligibility criteria of**
12 **causation, materiality, and prudence?**

13
14 The ATP Account satisfies the OEB eligibility criteria of causation, materiality and
15 prudence.

16
17 With respect to causation, as Hydro One does not intend to include the costs captured in
18 the ATP Account in any OEB-approved revenue requirement for Hydro One, the expense
19 is outside of the base upon which Hydro One's revenue requirement is derived. The New
20 Partnership will own the transmission line assets and apply to the OEB for a revenue
21 requirement distinct and separate to that of Hydro One Transmission.

22
23 With respect to materiality, Hydro One Transmission's materiality threshold is \$3 million.
24 Hydro One believes the amounts recorded in the proposed regulatory account will be
25 material and exceed this level of expenditure. Total development and construction costs
26 for projects of this nature are expected to exceed \$3 million and will most likely be in the
27 hundreds of millions of dollars.

¹⁷ SEC Submission, page 1

1 Regarding prudence, given that Hydro One is undertaking the project related activities to
2 fulfill the priority and system planning needs underpinning the Minister's direction or
3 IESO letter, the costs to be recorded and tracked are for activities that are necessary for
4 developing the project, obtaining required approvals, including putting Hydro One in a
5 position to file an application for leave to construct, and construction. The costs recorded
6 in the regulatory account will be subject to an OEB prudency review upon an application
7 for disposition and recovery through the Ontario UTR.

8
9 No parties suggested that Hydro One did not meet the eligibility criteria to establish an
10 Accounting Order. OEB Staff submits that the proposed ATP Account meets the criteria
11 on which to establish a regulatory account. Furthermore, OEB Staff submits that the
12 "Account Criteria that Hydro One has included in its application are appropriate screening
13 criteria to identify development projects"¹⁸. Likewise EP and AMPCO submitted they
14 believe Hydro One has complied with the eligibility criteria of causation, materiality, and
15 prudence.

16
17 **Issue 3 – Is the draft accounting order filed by Hydro One, including the proposed**
18 **accounting entries set out therein, appropriate?**

19
20 No parties opposed Hydro One's evidence on this issue, with the exception of CKSPFN,
21 whose submission states that "Hydro One has not provided details on its rationale for
22 choosing to separate Station costs from Line costs"¹⁹. Hydro One addresses CKSPFN's
23 submission on this issue below in Section 3.0.

¹⁸ OEB Staff Submission, page 10

¹⁹ CKSPFN Submission, page 2.

Issue 4 – Is the proposed methodology of allocation of Hydro One’s direct and indirect costs to a project that is subject to the proposed account appropriate; and is the allocation methodology of common costs to Lines and Stations appropriate?

OEB staff and AMPCO submitted that Hydro One’s allocation methodology of common costs to lines and stations is appropriate.^{20,21} Energy Probe submitted that the costs of construction of non-regulated assets by Hydro One and its partners should be separate from regulated assets and expressed concern relating to the recording and allocation of Hydro One’s indirect costs²². With respect to the former, none of the assets discussed in this Application relate to unregulated assets. As a result, Energy Probe’s submission in this regard is not applicable.

Energy Probe invited Hydro One to demonstrate in its reply argument that there are adequate systems in place to identify and record indirect costs, including Engineering Design, filing for Environmental and Leave to Construct Approvals. Hydro One has well-established processes and policies in place to ensure appropriate costs are allocated to specific projects. These processes permit identification of major sub-components of a project (such as line and station scope work). The indirect costs, such as overhead allocations, are based upon a Common Corporate Cost allocation methodology to allocate costs, such as back office support and planning, among affiliates and business segments. This methodology has been used to derive both Hydro One’s distribution and transmission revenue requirements, as well as to record and allocate costs to Hydro One’s affiliate companies. Furthermore, the methodology is supported by an independent expert²³, and has received OEB approval, as part of those utility rate applications since 2004. Common Corporate Costs can be incurred in support of both OM&A work and capital work.

²⁰ OEB Staff Submission, page 12

²¹ AMPCO Submission, Page 7

²² EP Submission, page 4

²³ EB-2019-0082 - Black & Veatch Review of Common Corporate Costs 2019 – Exhibit F, Tab 2, Schedule 6, Attachment 1 – March 21, 2019

1 Consequently, it is necessary to allocate some Common Corporate Costs to capital work.
2 This is completed through the application of an Overhead Capitalization Rate (the “Rate”),
3 which is an additional charge on capital work to recover a portion of Common Corporate
4 Costs that is commensurate with the level of service provided on a shared basis in support
5 of that capital work. This Rate is applied to the capital work through Hydro One’s financial
6 accounting system²⁴ which applies the Rate to the capital work being performed. This
7 process ensures that the projects in question related to the ATP Account attract the
8 appropriate indirect costs that are consistent with Hydro One’s OEB-approved cost
9 allocation methodology.

10
11 The CKSPFN and GLP both submitted that it was not clear how the allocation of costs
12 between lines and stations would be done, and GLP sought clarity on Hydro One’s
13 description to allocate these costs on a pro-rata methodology²⁵.

14
15 Hydro One’s proposal is that common costs incurred to develop and construct these assets
16 (such as costs related to joint public information centres) would be allocated based upon
17 the actual costs incurred. For instance, if the actual stations costs incurred were 30% of
18 total project costs, then 30% of indirect costs would be allocated to stations. As mentioned
19 in Exhibit I, Tab 1, Schedule 5, all costs that are directly associated with stations or lines
20 only, would be coded directly to that specific project code. Each project that is expected
21 to be included in the ATP Account will have a unique project code for both station and line
22 costs.

²⁴ Hydro One uses the SAP Accounting Software/Enterprise Resource Planning system

²⁵ GLP Submission, page 4

Issue 5 – Are the notification and reporting requirements for the proposed regulatory account appropriate?

Other than CKSPFN, GLP and SEC, all other intervenors had no concerns with the notification and reporting requirements for the proposed account. OEB Staff expanded the notification proposal contained in Hydro One's Application.

At page 12, the OEB Staff Submission outlines the following:

Hydro One shall include the following as part of the notification:

a) Project description

b) Expected in-service date

c) Direction provided to Hydro One to commence development activities and confirmation that the project is in accordance with the direction set forth by the Minister of Energy and/or a letter received by Hydro One from the IESO

d) Confirmation that by the time the project enters service all or part of the project is expected to be owned by and included in the rate base of a partnership between Hydro One and one or more partners

e) Confirmation that project costs are expected to exceed the materiality threshold.

Hydro One accepts the OEB Staff expanded notification proposal.

CKSPFN and GLP's comments on this issue are specific to the tracking of both lines and stations cost for commercial purposes. As noted, SEC does not support the establishment of the ATP Account. These submissions are addressed in Section 3.0 and 4.0 respectively.

Issue 6 – Is the proposed manner and timing for disposition of this account appropriate?

Intervenors provided no significant concerns with the proposed manner and timing for disposition of this account²⁶.

Hydro One does note Energy Probe's submission that:

... if the ATP results from a competitive bid, either from the IESO or under the Minister's Direction, then Hydro One's shareholder should bear the responsibility for any such cancellation costs. For example, Hydro One's proposals for the Lakehead to Wawa Transmission Line (awarded to UCT/NextBridge) should not be recovered from ratepayers. To do so, diminishes the competitive aspect of such procurements²⁷.

The type of projects contemplated to be included in the ATP Account would be those that result from a directive of the Minister or a formal letter from the IESO. Hydro One has not, and will not, include costs associated with competitive transmission bids in this account. Hydro One would comply with the EB-2010-0059 OEB Policy and/or any other policy that may be established by the OEB or the IESO with respect to competitive transmission bid cost recovery. Consequently, with that clarification, it would appear on face that EP would agree with the proposed manner and timing for disposition of this account.

OEB Staff in their submission on this issue articulated the following if the transmission line does not enter service:

²⁶ SEC's objection to the ATP Account in general is dealt with in Section 4.0.

²⁷ Energy Probe submission, p. 5

OEB staff submits that it would be undesirable for costs associated with a project that is not progressing toward completion to remain in the ATP Account indefinitely. OEB staff submits that Hydro One should be required to alert the OEB if there has been no material progress on a project for nine months. Nine months is suggested because it amounts to roughly three seasons of field work.

Hydro One accepts this OEB Staff proposed requirement to inform the OEB if there has been no material progress on a project for nine months.

3.0 HYDRO ONE'S REPLY TO CKSPFN & GLP SUBMISSIONS TO INCLUDE STATION COSTS

The CKSPFN submission is that all capital assets which are required for transmission line operation must be included in the Indigenous consultation program and that equity participation in all those assets should be included in potential accommodation discussions²⁸. The CKSPFN request that the ATP Account should be inclusive of both line and station costs. Similarly, GLP submits that Hydro One has not provided a basis for the separation and exclusion of stations costs in the ATP Account and that one is not found in the IESO letters included in the Application²⁹.

Hydro One believes the negotiation of economic benefits are outside of the scope of this proceeding. Hydro One's Indigenous consultation program includes the work and assets included in a transmission line project and consultation is not restricted to the transmission lines themselves. Hydro One seeks, in order of priority, to avoid, mitigate or otherwise accommodate potential impacts to Indigenous rights where concerns are raised during consultation and engagement. The separate negotiation of economic benefits, including in

²⁸ CKSPFN Submission, page 1-2

²⁹ GLP Submission, page 2

1 some cases equity investment opportunities, occur as a result of Hydro One's internal
2 policies and values. While these benefits may satisfy an Indigenous community's criteria
3 for granting their consent and support for a Hydro One project, these discussions are
4 outside of, and distinct from, the consultation and engagement process undertaken in
5 respect of the Crown's duty to consult.

6
7 GLP requested that Hydro One provide the rationale and justification for any separation of
8 transmission and station assets and the exclusion of the latter from a New Partnership. GLP
9 elaborates on this position by arguing that the OEB's decision on the ATP Account will
10 establish a precedent for future First Nation electricity system partnerships³⁰.

11
12 Though the OEB approves the divestiture of any transmitter's assets pursuant to s.86 of the
13 *OEB Act, 1998*, the OEB does not in any way mandate those divestitures or force a utility
14 to divest their facilities; to do so would in fact be precedent-setting. In effect, the ATP
15 Account has no impact, positive or negative, on the negotiation of economic benefits and/or
16 the establishment of Indigenous electricity system partnerships contrary to the submissions
17 of GLP. As aforementioned, the negotiation of economic benefits on these types of
18 projects, i.e., projects that have been directed to be completed by the incumbent transmitter
19 either through a Minister directive or letter from the IESO, which could include equity
20 investment opportunities, occur as a result of Hydro One's internal policies.

21
22 Given the above, Hydro One submits that there is no regulatory basis for tracking station
23 costs in the ATP Account. Accordingly, the ATP Account should be approved to track
24 solely transmission line costs as sought in the Application.

25
26 From a practical and operational perspective, Hydro One would like to clarify that
27 transmission stations serve multiple transmission lines, and their operations are in support
28 of Ontario's entire electricity transmission system. In other words, they are not discrete to

³⁰ GLP Submission, page 4

1 one particular transmission line. While new station assets may be required to connect a
2 new line, the station assets inherently provide operational benefit to the overall station and
3 to all lines egressing to the station meaning that the benefit is socialized across the entire
4 station and not discrete to the new line subject to a partnership. There are real safety,
5 physical security, operating and reliability considerations that are alleviated when
6 incumbent transmitters continue to operate station facilities that comprise the integrated
7 transmission network. As the station forms the backbone of connection and serves the
8 broader transmission network and not just a single transmission line, Hydro One's
9 submissions are that from a safety, security, and operations perspective, the entire station
10 should be owned by one entity to ensure the reliability of the integrated transmission
11 system and maximize efficiency in operations.

12
13 In any event, a determination of the types and amounts of assets included in any future
14 partnership will be a consequence of commercial negotiation and it is not relevant to the
15 establishment of the ATP Account as proposed. The nature of the partnership, including
16 the number and type of future partners, the equity interests held and the assets owned by
17 that partnership will be negotiated during a commercially orientated process in the future.

18
19 GLP has requested the right of further reply, to this, Hydro One's Reply Submission.
20 However, Hydro One's position has not changed from that presented in its Application and
21 the submissions above are consistent with the stated policy of Hydro One and current
22 practice. As a result, in Hydro One's opinion, further reply is not required by GLP.
23 However, if such reply is provided, Hydro One reserves its right of sur-reply.

24 25 **4.0 SEC SUBMISSION TO DENY THE ATP ACCOUNT**

26
27 SEC opposes the proposed ATP Account because SEC believes Hydro One's proposal is
28 inconsistent with the existing approved Hydro One transmission rate framework and that

1 the request should be made within Hydro One's Joint Rate Application³¹ ("JRAP")³². SEC
2 also asserts since Hydro One did not previously need or request the ATP Account for
3 initiatives like the Lake Superior Link application³³, there is no need for a regulatory
4 account now. SEC's submissions should be rejected by the OEB. SEC, in making its
5 submissions, has ignored an essential aspect of the ATP Account – the costs in question
6 will not form part of the rate recovery by Hydro One and is therefore outside the regulatory
7 framework applicable to Hydro One. In opposing the ATP Account, SEC advocates for
8 regulatory approaches that are not efficient or effective in the unique circumstance in which
9 the ATP Account is to apply.

10
11 SEC suggests that the need for the ATP Account is eliminated because of the existence of
12 regulatory mechanisms such as the Z-Factor and because the OEB has previously approved
13 various deferral and variance accounts for Hydro One. In what appears to be the wrongly
14 held belief that a regulatory account can only be approved in a revenue requirement
15 application, SEC argues that Hydro One has not identified how the current approved rate
16 framework permits the approvals sought by Hydro One in this Application³⁴.

17
18 With respect to the Z-factor, the Filing Requirements for Electricity Transmission
19 Applications describe the Z-factor as being used for "unforeseen events that are outside the
20 control of a transmitter's ability to manage, such as damage that is the result of a storm"
21 and go on to say that the transmitter must "notify the OEB promptly of all Z-factor events.
22 Failure to notify the OEB within six months of the event may result in disallowance of the
23 claim"³⁵. The premise of Z-factor relief is that the utility seeking such relief requires rate
24 recovery of costs incurred. However, this is not the circumstance dealt with by the ATP
25 Account and ignores the fact that the main driver of the ATP Account is that the costs

³¹ The JRAP seeks approval for distribution and transmission rates for 2023-2027.

³² SEC Submission, page 3

³³ SEC Submission, page 4

³⁴ SEC Submission, page 2

³⁵ Ontario Energy Board Filing Requirements For Electricity Transmission Applications, Chapter 2 Revenue Requirement Applications – February 11, 2016 – page 31-32

1 captured to develop and construct the ATP transmission lines will not form part of Hydro
2 One's transmission rate base but rather included in the rate base of a new licensed entity
3 which will seek rate recovery.

4
5 Furthermore, the development and construction of new infrastructure that will occur and
6 accrue capital costs over a multi-year period, is not the type of *unforeseen event* applicable
7 to Z-factor treatment. In this Application, Hydro One has proposed a streamlined process
8 that will permit Hydro One to record amounts in the ATP Account until the costs can be
9 part of rate recovery by the newly licenced transmitter at a later date.

10
11 Additionally, the requirements for Z-factor treatment will result in duplicate oversight
12 since the projects will be the subject of other OEB proceedings. For example, like the Z-
13 Factor policy, a leave to construct application will also consider:

- 14 • “the manner in which it intends to allocate the incremental revenue requirement to
15 the various rate pools”;
- 16 • “the merits of alternative allocation methods”; and
- 17 • “the incremental revenue requirement”³⁶.

18
19 The ATP Account increases regulatory efficiency and permits full prudence review of costs
20 at a future OEB hearing and assures that the appropriate licenced transmitter is seeking rate
21 recovery unlike the proposal made by SEC.

22
23 SEC submitted that a utility should not be able to apply for a deferral and variance during
24 a multi-year rate framework³⁷. As noted above, since Hydro One will not be seeking rate
25 recovery of the costs subject to the ATP Account, the consideration of Hydro One's multi-
26 year rate framework is irrelevant. In effect, SEC is arguing that the OEB should deny the
27 approval of the ATP Account, just because Hydro One has an unrelated multi-year rate

³⁶ *ibid*

³⁷ SEC Submission, page 3

1 framework. Such a position does not provide for regulatory efficiency. Furthermore, the
2 OEB has no policies that prevent the establishment of a regulatory account in the midst of
3 an approved rate-setting period. In fact, there are many examples where quite the opposite
4 is true. For example:

- 5 • Recently the OEB established a regulatory account to track COVID related costs
- 6 • The OEB's approval of Hydro One's Waasigan Transmission Line Deferral
7 Account (EB-2014-0311 and EB-2019-0151)
- 8 • East West Tie Deferral Account (EB-2012-0180)
- 9 • Hydro One Transmission OPEB Deferral Account (EB-2017-0338)

10
11 These accounts and others have all been established outside of a revenue requirement
12 application, which is inherently consistent with appropriate regulatory practice since the
13 establishment of such accounts permit the multi-year rate framework to apply as approved
14 while deferring the costs to a later period when recovery can be considered in the context
15 of a new approved multi-year framework. For the OEB not to approve the account may in
16 fact delay, or interrupt progress on a project that would otherwise utilize the proposed ATP
17 Account. SEC's regulatory paradigm would mean that this effective and efficient
18 mechanism would be lost to the detriment of the regulatory process.

19
20 It is unreasonable and inconsistent with prior OEB decisions to suggest that a utility should
21 not be able to take advantage of existing rate-regulated principles, such as regulatory
22 accounts, to protect ratepayers and the utility from the risks associated with these types of
23 large projects.

24
25 SEC has submitted that Hydro One should seek approval of the ATP Account as part of
26 Hydro One's recently filed JRAP Application because Hydro One filed for approval of a
27 new regulatory account, the Externally Driven Transmission Projects Variance Account

(EDTPVA)³⁸. However, there is a key difference between the EDTPVA and the ATP Account which is that the ultimate owner of the type of transmission line projects that would utilize the ATP Account will not be Hydro One.

The implication of SEC's proposal is that Hydro One would have to record the development costs for these priority projects under the guise that those costs will ultimately form part of the Hydro One transmission revenue requirement. However, this inaccurately represents the intended result. Alternatively, SEC's proposal infers that the deferral account can only be established once the new partnership has been established because then, and only then, will the costs not be part of Hydro One Transmission's revenue requirement. Hydro One believes this is a narrow perspective to the development of these priority projects and that this type of approach could hinder meaningful consultation with Indigenous communities, potentially rush the development of these partnerships, and reduce overall regulatory transparency related to the development and the execution of these priority projects. As submitted by other parties, including OEB Staff, if the ATP Account is approved it will provide clear visibility of the assets that are expected to be sold and transferred to a new transmission company once that entity is established. This can be further enhanced with periodic reporting of project status and costs incurred to date.

SEC also comments that customers pay transmission rates based on the UTRs, which aggregate all transmitters' approved revenue requirements, including Hydro One and any affiliate new partnerships. On this basis SEC argues that:

“Understanding the full picture of Hydro One transmission costs is essential for the OEB and customers to properly consider potential tradeoffs, between spending for new transmission lines that projects such as those eligible, included in the ATP Account, and other areas of spending.

³⁸ SEC Submission, page 3

1 *Hydro One’s proposal would mask these costs from a clear view as they are*
2 *not included in its transmission rate applications”³⁹.*
3

4 SEC’s argument seems to imply that in order to assess the tradeoffs between capital
5 expenditures and the UTR customers pay, the OEB must assess all transmission revenue
6 requirements contributing to that UTR at the same time. This would mean that the OEB
7 would need to assess not only Hydro One’s Transmission revenue requirement application,
8 but all revenue requirement applications put forth by other transmitters, such as
9 Wataynikaneyap Power, NextBridge, Canadian Niagara Power, Five Nations, HOSSM,
10 B2MLP, NRLP at the same time. Together, these would determine what capital spend
11 should be included in the UTRs overall revenue requirement. This is a complete departure
12 from OEB practice. The combining of transmission revenue requirements is a mechanism
13 to establish a single Ontario transmission rate unlike the rate design process for distributors.
14 What is relevant to the OEB’s consideration for each transmitter is the transmitter’s
15 revenue requirement and the prudent and reasonable costs that underpin that revenue
16 requirement. In this regard, the revenue requirements of other transmitters on the
17 assessment of the reasonableness and prudence of costs is entirely irrelevant. As such, the
18 costs recorded in the ATP Account ultimately forms part of the revenue requirement of a
19 transmitter other than Hydro One and is irrelevant to Hydro One’s JRAP application.

20
21 As noted above, SEC argues that Hydro One, without a similar account in place, developed,
22 constructed, and transferred to a partnership both the Bruce-to-Milton Line and the Niagara
23 Reinforcement Line Project. Similarly, SEC argues that there is no need for the ATP
24 Account because Hydro One was previously willing to begin development work on the
25 Lake Superior Link (“LSL”) project despite competing against NextBridge’s East-West
26 Tie Line that the OEB had already designated⁴⁰. This argument is misguided as SEC is
27 comparing two distinct types of projects; those that are ordered to be completed by the

³⁹ SEC Submission, page 5

⁴⁰ SEC Submission, page 4

1 incumbent transmitter by the Minister or through the IESO letter, and those that are open
2 to competitive procurement. The latter is entirely different than the type of projects that
3 will be included in the ATP Account. Nonetheless, for the sake of clarifying the record of
4 this proceeding, Hydro One provides that with respect to the LSL Project, Hydro One
5 complied with the policies of the OEB and/or the IESO at the time, and will continue to
6 comply with regulatory policies on these types of competitive projects in the future. These
7 policies articulated that development costs should only be recovered from designated
8 transmitters unless the amount saved on construction costs could be more than the cost
9 added by the funding of a second development project⁴¹. As SEC is aware, Hydro One
10 sought to seek recovery of development costs for the LSL Project given that the LSL
11 Project was forecast to cost \$100 million less than the designated alternative⁴². As Hydro
12 One understands the policy, however, that recovery could only be sought if Hydro One was
13 ultimately awarded the project, therefore Hydro One did not seek recovery of these costs.
14 Consequently, Hydro One disagrees with the SEC assertion and suggests that any
15 arguments paralleling LSL, NRP, or BxM, with the projects that will be tracked in the ATP
16 Account is inherently flawed for the reasons discussed in this Reply.

17
18 SEC argues that because Hydro One began development work and is currently capitalizing
19 costs on two of the projects that are the subject of this Application, the ATP Account is not
20 needed and that the costs should be reflected in Hydro One's JRAP⁴³. However, whether
21 Hydro One has or has not brought forward a regulatory account request to date is irrelevant
22 to the relief sought in this Application. Again, SEC ignores that the costs will ultimately
23 form part of the rate base of another transmitter. In this regard, the fact that a regulatory
24 account is now sought and the costs do not form part of Hydro One's JRAP is wholly
25 consistent with accepted regulatory practice. Recording amounts in an account until
26 recovery is sought by the transmitter to which they apply is the same circumstance as

⁴¹ EB-2010-0059 – page 16

⁴² EB-2017-182/EB-2017-0194/EB-2017-0364 – Hydro One's Argument-In-Chief – October 22, 2018 – page 9

⁴³ SEC Submission, page 4

1 applied to the NextBridge EWT project or the Wataynikaneyap Power project.
2 NextBridge, as a new transmitter, was not required to bring forward a revenue requirement
3 application while it was completing its development and construction work for the EWT
4 Project. Nor did the OEB require NextBridge to forecast their capital expenditures, that
5 would eventually be included in the calculation of UTRs, during the EWT's development
6 period as SEC proposes above. The same is true for the line that is being constructed by
7 Wataynikaneyap Power. If a new transmitter were responsible for constructing the ATP
8 Account project, they would not be, and more importantly have not been, required to
9 provide the information sought by SEC prior to that transmitter's first revenue requirement
10 application. The ATP Account, in a transparent manner, permits the costs to be tracked,
11 recorded and/or deferred until the applicable licenced transmitter can seek rate recovery
12 since, unlike NextBridge and Wataynikaneyap Power, the development work is being
13 undertaken by Hydro One and will not be transferred to the New Partnership until it is
14 established. Hydro One, through the ATP Account, is applying the same standard available
15 to any of the new transmitters albeit through a deferral mechanism. Contrary to SEC's
16 submission, Hydro One submits that precluding the establishment of the ATP Account and
17 compelling Hydro One to incorporate forecast costs for ATP Account-type projects into
18 Hydro One's revenue requirement is not efficient or transparent from a regulatory
19 perspective and is not required to establish UTRs.

20
21 SEC also requests that the OEB consider the appropriate rate-making treatment of single
22 asset transmitters in a generic proceeding by way of policy consultation or otherwise⁴⁴.
23 Without understanding the full scope of such a generic proceeding, Hydro One takes no
24 position at this time in regard to the appropriateness of a generic proceeding. However, in
25 any event, for the reasons expressed in its Application and these submissions, Hydro One
26 believes that consideration of such a generic process should not prejudice the relief sought
27 in this Application.

⁴⁴ SEC Submission, page 5

1 **5.0 CONCLUSION**

2
3 Hydro One is proposing that, for directed transmission lines that are expected to eventually
4 be owned and operated by a New Partnership, the ATP Account be approved to (i) capture
5 the development costs incurred prior to capitalization, and (ii) track the project costs once
6 the capitalization criteria has been met. The costs for any potential transmission projects
7 will be identified by project, and recorded and/or tracked in the proposed regulatory
8 account within the appropriate sub-accounts. Hydro One has met the Board's eligibility
9 criteria of causation, materiality and prudence. The costs that are proposed to be recorded
10 within the ATP Account will be material and for the all the reasons discussed, Hydro One
11 submits that it is in the public interest to approve the ATP Account.

12
13 All of which is respectfully submitted for the Board's consideration.