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BY EMAIL

November 28, 2023

Nancy Marconi
Registrar
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto ON M4P 1E4

Dear Ms. Marconi:

**Re: Hydro One Networks Inc.
Leave to Construct Application – Waasigan Project
Ontario Energy Board (OEB) Staff Interrogatories
OEB File Number: EB-2023-0198**

In accordance with Procedural Order No. 2, please find attached the OEB staff interrogatories for the above proceeding. This document has been sent to Hydro One Networks Inc. and to all other registered parties to this proceeding.

Hydro One Networks Inc. is reminded that its responses to interrogatories are due by December 15, 2023. Responses to interrogatories, including supporting documentation, must not include personal information unless filed in accordance with rule 9A of the OEB's Rules of Practice and Procedure.

Yours truly,

Vithooshan Ganesanathan
Advisor, Generation & Transmission

Encl.

**OEB Staff Interrogatories
Hydro One Networks Inc.
EB-2023-0198**

Staff-1

Ref: Exhibit B, Tab 1, Schedule 1, p. 1
Exhibit B, Tab 3, Schedule 1, Attachment 1

Preamble:

Hydro One Networks Inc. (Hydro One) states that the Waasigan Project has been declared a priority project for Hydro One to develop and seek approvals for by the Minister of Energy. The Order in Council (OIC) from the Minister of Energy is attached as Exhibit B, Tab 3, Schedule 1, Attachment 1.

Question:

- a) Please confirm if the Waasigan Project has been declared a priority project under section 96.1 of the OEB Act.

Staff-2

Ref: Exhibit B, Tab 1, Schedule 1, pp. 2-3

Preamble:

Hydro One states that the transmission line facilities comprising the Project will be owned by a future limited partnership through which Hydro One will offer 50% equity ownership to nine First Nation partners. Gwayakocchigewin Limited Partnership (GLP) represents eight of the nine First Nations partnering with Hydro One on the Waasigan Transmission Line Project. The ninth First Nation partner is Lac des Mille Lacs First Nation (LDMLFN).

Hydro One further states that, as of the time of filing the application, the limited partnership has not yet been finalized Hydro One is not able to provide commercial details.

Questions:

- a) Please indicate if the limited partnership agreement may impact the project cost estimates provided at Exhibit B, Tab 7, Schedule 1 pp. 1-3 of the application. If

applicable, please discuss the likelihood, magnitude and reasons for these potential cost impacts.

- b) Please confirm if “transmission line facilities” noted in the preamble above refers to only line assets or both line and station assets. Please also confirm if Hydro One’s offer for 50% equity ownership to the nine First Nation partners is only for the line assets in the Project.

Staff-3

Ref: Exhibit B, Tab 10, Schedule 1, pp. 1-2
EB-2021-0169, Amended Evidence, p. 3

Preamble:

Hydro One states that, in its OEB-approved 2023-27 transmission rate application¹ (in the Transmission System Plan – Section 2.1.3), Hydro One disclosed that the Project’s line scope was expected to be owned by, and included in, the rate base of a new future OEB-transmission licensed partnership, while Project station cost will be in-serviced into Hydro One’s transmission rate base.

Hydro One states that “like the Stations costs, during construction, all transmission line project costs will be tracked in Hydro One’s OEB-approved ATP Account [Affiliate Transmission Partnership regulatory account]”.

At the second reference, Hydro One states:

The ATP Account would have two sub-accounts, the (i) *ATP – Project Development, Preliminary Engineering and Planning Work deferral account*, and the (ii) *ATP – Project Construction Costs tracking account*. Each of these sub-accounts, as described below, will record costs by individual project.

In this Application, Hydro One notes that the OEB approved the Externally Driven Work Regulatory (EDWR) Account allowing Hydro One to capture the annual revenue requirement amounts for in-serviced assets in Hydro One’s rate base, for disposition in a future transmission revenue requirement application.

¹ EB-2021-0110.

Questions:

- a) Please confirm that only line costs are proposed to be recorded and tracked in the ATP Account. If not confirmed, please explain.
 - i. The ATP Account was established through the OEB's decision in the EB-2021-0169 proceeding. If applicable, please describe how Hydro One's proposal to assign station costs to the ATP Account is consistent with the OEB finding from that decision that stated:

“The OEB finds that requiring Hydro One to include transmission stations in the scope of the proposed ATP Account would be inappropriate. Should Hydro One wish to include transmission station ownership in any future project development with a New Partnership, Hydro One would have to seek OEB's approval regarding the expansion of the proposed ATP Account scope.”
- b) If applicable, please specify the total project costs as shown in Table 2, Table 3, Table 4 and Table 5 of Exhibit B, Tab 7, Schedule 1 that will be assigned to the ATP Account and those that will be assigned to Hydro One's rate base.
- c) Please clarify when Hydro One anticipates the disposition of the deferral sub-account balance in the ATP Account will be sought.
- d) The ATP Account decision found that the costs of “development work” related to the Waasigan Project would be tracked in the ATP Account. Per Hydro One's application in that proceeding, development work included items such as engineering work and preparation for regulatory approvals (Environmental Assessment and Leave to Construct).
 - i. Please indicate if the costs associated with development work are reflected in Table 2, Table 3, Table 4 and Table 5 of Exhibit B, Tab 7, Schedule 1 and if not, why not.

Staff-4

Ref: Exhibit B, Tab 5, Schedule 1, Tables 1 and 2, pp. 3-4

Preamble:

Hydro One provides an incremental NPV analysis of the conductor size alternatives in the application.

OEB staff notes that the NPV analysis methodology used in the reference is consistent with that used in the previously approved LTC - Chatham by Lakeshore application.² In both of the applications, Hydro One provided three scenarios using different HOEP prices to calculate NPV values.

OEB staff also notes that Hydro One used a combination of HOEP (wholesale market price) and Global Adjustment (GA) to produce NPV values in its response to interrogatories³ for its LTC application – Ansonville TS and Kirkland Lake TS A8K/A9K Refurbishment Project.

Questions:

- a) Please provide calculations to derive the information in Tables 1 and 2 in the reference.
- b) Please reproduce Table 1 to show the Total Capital Cost for each alternative in addition to the Incremental Capital Cost.
- c) Please explain why Hydro One is using HOEP as the proxy for the energy price instead of both HOEP and Global Adjustment (GA).
 - OEB staff understand that the IESO uses HOEP within the Net Energy Market Settlement Uplift charge to recover the cost of line losses. However, OEB staff note that there is also a Global Adjustment component to line losses that is recovered from consumers.
- d) Please reproduce Table 2 using HOEP+GA instead of HOEP.
 - i. Please comment on any significant differences in the NPV values for each alternative using HOEP versus HOEP+GA.

² EB-2022-0140, Exhibit B, Tab 9, Schedule 1, pp. 3-5 (May 9, 2022).

³ EB-2021-0107, Exhibit I, Tab 2, Schedule 5, IRR-ED#5, pp. 3-7 (October 29, 2021).

- i. Please comment whether the NPV analysis between the two types of energy prices yield the same results.
- e) Beyond the NPV analysis, please explain if there are any other considerations in choosing between the four conductor alternatives.

Staff-5

Ref: Exhibit B, Tab 5, Schedule 1, p. 1
Neighbours on the Line Letter, November 16, 2023

Preamble:

In January 2023 Hydro One publicly released a preliminary preferred Project route for review and comment. Hydro One states that during this route development and evaluation period it undertook and completed a detailed review and analysis of the alternative proposed by Kaministiquia community members. All alternative route assessments undertaken by Hydro One determined that the Project's preliminary preferred route, as included in the application, best balances Indigenous culture, values and land use, natural environment, socio-economic environment, and technical and cost considerations.

In its letter dated November 16, 2023, Neighbours on the Line (NOTL), an intervenor in this proceeding, states that through the Environmental Assessment (EA) process, it proposed an alternative route that would save between \$90 million to \$100 million based on Hydro One's estimates.

Question:

- a) Please confirm if a financial assessment of the alternative route proposed by NOTL was completed. If so, please provide a summary of the analysis and the results. If not, please explain why.

Staff-6

Ref: Exhibit B, Tab 5, Schedule 1, p. 2

Preamble:

Hydro one evaluated the following conductor sizes, with Alternative 1 as the preferred option:

- Alternative 1 – ACSR 795 kcmil conductor
- Alternative 2 – ACSR 997 kcmil conductor

- Alternative 3 – ACSR 1192 kcmil conductor
- Alternative 4 – ACSR 1443 kcmil conductor

Hydro One states that all alternatives listed above address the supply load need of the Project and provide a reliable supply to customers in the area.

The Project is comprised of two Phases: 1) a double-circuit 230 kV transmission line spanning approximately 190km between Lakehead TS to Mackenzie TS, and 2) a single-circuit 230 kV transmission line spanning approximately 170km between Mackenzie TS to Dryden TS.

Questions:

- a) What is the minimum conductor size that would address the supply load need for each phase of the Project?
- b) If the minimum conductor size noted in the answer to a) is not the preferred alternative, please explain why.
- c) Please explain why these specific conductor sizes were selected as alternatives and not other sizes.
- d) Did Hydro One consider the options with different conductor sizes for the Phase 1 and 2 of the Project? Please explain the results of that analysis.

Staff-7

Ref: Exhibit B, Tab 7, Schedule 1, pp. 1-4 and 7-8
EB-2022-0140, Exhibit B, Tab 7, Schedule 1, pp. 1-2
EB-2017-0182, Exhibit B, Tab 9, Schedule 1, p. 1

Preamble:

OEB staff have developed the following table comparing the Project's contingency estimates to recent Leave to Construct applications with significant budgets. The Project's contingency estimates have been developed using the first reference noted above, while the contingency estimates for the comparator projects have been developed based on the second and third references.

Table 1: Contingency Cost Comparison

	Waasigan Project- Phase 1	Waasigan Project- Phase 2	Chatham Lakeshore Project	East-West Tie Line
Line Cost	10.5%	9.5%	8.9%	6.7%
Station Cost	11.2%	12.3%	4.6%	

At the first reference, Hydro One indicates that its cost estimate includes an allowance for contingencies in recognition of risks associated with estimating costs. The top project risks noted by Hydro One include a) land acquisition, b) engagement and consultation, and c) approvals, permits and authorizations.

Approvals, permits and authorizations involve risk of delay when obtaining the necessary approvals, permits and authorizations, such as the Environmental Assessment (EA), S.92 Leave to Construct and archaeology.

Hydro One also provides cost contingencies that have not been included, due to the unlikelihood or uncertainty of occurrence.

Questions:

- a) Please describe in detail the process followed by Hydro One to develop the contingency estimates for the Project. Please also provide a detailed breakdown of the contingency estimates for line costs and station costs.
- b) Based on the analysis noted by OEB staff in the Preamble, it appears that the contingency estimates for the Project are higher, on a percentage basis, relative to the noted comparators. Given this analysis, please explain why the Project's contingency estimates are appropriate.
- c) To what extent does the risk associated with the land acquisition process increase the overall project costs.
- d) Besides the top three risks outlined in the application, please provide other project risks considered as contributing factors to the total contingency and a brief explanation of each risk.
 - i) Please provide an indication of the relative importance of each of the risks towards the estimated contingency cost.

- e) Please explain the likelihood of risks occurring for the cost contingencies that have not been included and estimate the potential impact of such events on cost and the in-service date. Please also explain steps that Hydro One will take to mitigate these risks.

Staff-8

Ref: Exhibit B, Tab 7, Schedule 1, p. 10

Preamble:

Hydro One states that the price of essential commodities has a significant impact on project costs. Equipment purchased to construct transmission lines (e.g., steel towers, conductors and miscellaneous hardware) is heavily impacted by certain raw material indices. Essential commodities such as copper, aluminum and steel have undergone price increases and supply shortages.

Hydro One specifically notes that “from January 2021 to January 2022, the price of copper has increased by 27.1%, aluminum has increased by 41.6% and steel has increased by 111.6%”.

Questions:

- a) Please provide a table detailing how the prices of copper, aluminum, steel and any other essential commodities have changed from January 2021 to January 2023. Please show changes in prices on a quarterly basis.
- b) Please estimate the impact of the increase in commodity prices on the total Project cost.

Staff-9

Ref: Exhibit B, Tab 7, Schedule 1, pp. 4 and 15

Preamble:

Hydro One states that the Project lines and station cost estimates are based on a fixed price EPC contract.

Questions:

- a) Please provide a breakdown of the fixed price EPC contract by line costs and station costs.
- b) What is the magnitude of the EPC contract as a percentage of the total Project cost?

- c) Please update Tables 7, 8 and 9 at Exhibit B, Tab 7, Schedule 1 to reflect the inflation adjustment factors that include the latest OEB's annual inflation parameters for 2024.

Staff-10

Ref: Exhibit B, Tab 7, Schedule 1, pp. 12-15

Preamble:

For costs of comparable station projects, Hydro One states that the major differences contributing to the price variation of the station projects include procurement, execution methodology, and project scope.

For execution methodology, Hydro One states that the comparative station projects were executed where design, procurement and construction were undertaken by Hydro One and for this Project, the fixed price EPC execution methodology has been selected to best define and manage project scope.

Questions:

- a) Please explain in further detail the execution methodology used for these comparative projects compared to the fixed price EPC methodology used for the Waasigan project in terms of costs and effectiveness of the project delivery.
- b) OEB staff notes that the cost for Phase 2 Mackenzie TS is much lower than Dryden TS (table 9). Please provide reasons for the substantial difference in cost.

Staff-11

Ref: Exhibit B, Tab 7, Schedule 1, pp. 12-15

Preamble:

When considering the cost per km ratio for all other transmission line costs in Table 7 in the reference, Hydro One states that the comparable projects demonstrate that the estimate for the Project is within a reasonable range to that of comparable transmission line works. However, there are some primary factors contributing to, in some instances, a higher project cost which are Procurement Costs and Engagement and Consultation.

For Engagement and Consultation, Hydro One States that a significant difference between this Project and the comparators is the magnitude of engagement and consultation required both on the development and execution of the Project.

Hydro One states that the Project required undertaking a multi-year comprehensive Environmental Assessment and consultation with 21 Indigenous communities and organizations. Engagement has been extensive while also having to adapt throughout the process to the restrictions of COVID-19.

Questions:

- a) Please explain in detail the impact of the magnitude of procurement costs and engagement and consultation on total Project cost compared to other projects?
- b) Please provide a cost breakdown for procurement and engagement and consultations.
- c) OEB staff notes that similar to the Waasigan Project, in the East West Tie Line project,⁴ NextBridge stated that it engaged eighteen First Nations and Métis communities. The East West Tie Line project included a First Nation partnership with Bamkushwada Limited Partnership which allowed an equity interest. Please explain if there are material differences between the consultation work for the Waasigan Project and the East West Tie Line project.
- d) OEB staff notes that execution methodology was one of the factors noted in the application for contributing to the price variation for the station costs. Please explain why this factor was not applicable to the analysis for comparing line cost amongst the comparator projects and the Waasigan Project.

Staff-12

Ref: Exhibit B, Tab 7, Schedule 1, p. 11
[East-West Tie Quarterly Progress Report, January 20, 2023](#)
[East-West Tie Quarterly Progress Report, October 21, 2023](#)

Preamble:

Hydro One compared the estimated costs of the line portion of the Project with four comparators, including Upper Canada Transmission Inc.'s East-West Tie Line. Hydro One states that the cost estimate of \$935.9 million for the East-West Tie Line was obtained from Upper Canada Transmission's East-West Tie Line Quarterly Construction Progress Report (Report) dated January 20, 2023.

OEB staff notes that the \$935.9 million is referenced in the October 21, 2022 report rather than the January 20, 2023 report. OEB staff notes that on page 15 of the October

⁴ EB-2017-0182, Exhibit H, Tab 1, Schedule 1, p. 1.

21, 2022 Report, \$111.6 million, representing 11.9% of the total project cost, is allocated to costs incurred due to Covid-19. This Report states that the Covid-19 costs incurred for the East-West Tie Line include hard costs (i.e., personal protective equipment, safety personnel and security, cleaning, testing equipment, and other costs) and productivity losses (i.e., lost time from unplanned Covid-19 related tasks, social distancing, staggering shifts, etc.).

Questions:

- a) Please confirm the date of the Upper Canada Transmission's East-West Tie Line Quarterly Construction Progress Report and the exact page number where the \$935.9 million cost estimate of the East-West Tie Line is noted.
- b) Please confirm if Hydro One anticipates incurring Covid-19 costs similar to those referenced in Upper Canada Transmission's October 21, 2023 East-West Tie Line Quarterly Construction Progress Report (i.e., Covid-19 hard costs and productivity loss).
 - I. If yes, please explain the Covid-19-related costs Hydro One anticipates incurring.
 - II. If no, please explain if it is appropriate to adjust the estimated East-West Tie Line project cost to remove the \$111.6 million in Covid-19-related costs when completing the cost per unit km analysis.
- c) Please recalculate the cost per unit km for the line portion of the East-West Tie Line project without the \$111.6 million in Covid-19-related costs. Please provide the supporting calculations.

Staff-13

Ref: Exhibit B, Tab 7, Schedule 1, p. 11
EB-2021-0107, OEB staff-1c)
EB-2023-0168, Exhibit B, Tab 1, Schedule 3, p. 3

Preamble:

Hydro One conducted a cost per unit km analysis for the following projects: Hawthorne to Merivale, South Nepean DETL, and WATR Projects constructed by Hydro One, and the East-West-Tie Line which was constructed by Upper Canada 2 Transmission Inc. The cost per km for the comparator projects ranges from \$2.4 million to \$4.1 million per unit km, with the Waasigan Project at \$2.6 million per unit km. Table 2 below summarizes the results of the analysis.

Table 2: Costs of Line Portion of Comparator Projects

	Hawthorne x Merivale Conductor Upgrade	South Nepean DETL Estimate South Nepean Trans Reinforcement	WATR Ingersoll x Karn x Woodstock	Upper Canada Transmission Inc. East-West Tie Line	Waasigan Transmission Lines Project
Circuit Type	Double	Double	Double	Double	Double/Single ⁵
Conductor (kcmil)	1192	997	1443	1192	795
Estimate/Actual	Actual	Actual	Actual	Estimate ⁶	Estimated
Cost (\$M's)	\$39.4	\$51.3	\$35.6	\$935.9	\$992.7
Escalation Adjustment ⁷	5.4	8.8	13.7	169.88	N/A
Length of Line	12.0	12.2	13.6	450	360

OEB staff notes that 170km of the Waasigan Project is a single-circuit line, representing approximately 47% of the entire Project, while the comparator projects are all double-circuit lines.

OEB staff notes that the conductor sizes for the comparator projects are approximately 25% to 82% larger than the 795 kcmil proposed for the Waasigan Project.

OEB staff notes that three of the four comparator projects – Hawthorne to Merivale, South Nepean DETL, and WATR – have significantly lower line lengths in comparison to the Waasigan Project. The line lengths for each of these three comparators represents less than 4% of the total length of line for the Waasigan Project.

Reference 2 is an interrogatory response provided by Hydro One in its Leave to Construct Application for Ansonville TS and Kirkland Lake TS A8K/A9K Refurbishment Project. The interrogatory requested clarification on why the cost per circuit km of one alternative was higher than another. In response, Hydro One stated the following:

“Economics of scale and efficiencies allow for the per km price to decrease when including additional circuit lengths in construction. While scope of work for Alternative 1 is larger, there are efficiencies for longer transmission lines that decrease project cost associated to the additional scope of work. In this case, cost associated to mobilization/demobilization, material yards, environmental assessments, engineering, consultations, and insulator/hardware replacement are

⁵ Double circuit length is 190km, single circuit length is 170km.

⁶ Hydro One notes that this value is per report from Upper Canada Transmission for the *East-West Tie Line Quarterly Construction Progress Report* dated January 20, 2023. Docket EB-2017-0182.

⁷ Inflation adjustment factors used for comparator projects are consistent with the OEB's annual inflation parameters for electricity transmitters' rate applications.

very similar for the two alternatives. All these factors combined and divided by the increased line length resulted in a lower cost per km for Alternative 1.”

In Wataynikaneyap Power LP’s (WPLP) transmission system, the Line to Pickle Lake is a 230 kV single-circuit transmission line which is approximately 303 km from a point between Dryden and Ignace to Pickle Lake. The Line to Pickle Lake came into service in August 2022.

Questions:

- a) Please conduct a cost per unit km analysis and provide supporting calculations for:
 - i. Only the single-circuit line portion of the Waasigan Project
 - ii. The Line to Pickle Lake portion of WPLP’s transmission system
- b) Please explain why comparing the cost of the Line to Pickle Lake portion of WPLP’s transmission system and the single-circuit portion of the Waasigan Project on a per unit km basis would not be appropriate.
- c) Please conduct a cost per unit km analysis for only the double-circuit portion of the Waasigan Project.
- d) Could economies of scale and efficiencies gained from longer transmission lines be a driving factor for why the per unit cost of Hawthorne to Merivale, South Nepean DETL, and WATR projects are high in comparison to the East-West Tie Line and the Waasigan Project? If not, please explain why.
- e) Has Hydro One applied any adjustment factors to account for the larger conductor sizes amongst the comparator projects in comparison to the Waasigan Project? If yes, please explain the adjustment factors that were applied. If not, please explain why this was not considered.
- f) Please provide the calculations for the “Escalation Adjustment” values for the comparator projects noted in Table 2.

Staff-14

Ref: Exhibit B, Tab 7, Schedule 1, pp. 7-8
Exhibit E, Tab 1, Schedule 1, p. 8

Preamble:

At the first reference, Hydro One identifies land acquisition as a primary risk of the project, and specifically owners refusing Hydro One voluntary agreements which may lead to expropriation. At the second reference, Hydro One provided Table 3 below which sets out the status of the land acquisition process as at the date of filing the Application.

Table 3 - Land Acquisition Status

Property Type	Number of Properties	Early Access Agreement Offered	Early Access Agreement Achieved	Voluntary Settlement Agreements Offered	Voluntary Settlement Agreements Achieved	Issues	Resolution Approach
Private	Phase 1: 156	97%	79%	Pending	Pending	- Routing - Construction and Access - Future Maintenance - Trespassing - Etc.	- Continue to negotiate - Accommodate minor route refinements where and to the extent possible
	Phase 2: 78	Pending	Pending	Pending	Pending		
Federal	Phase 1: 0	N/A	N/A	N/A	N/A	- None to date	- N/A
	Phase 2: 1	Pending	Pending	Pending	Pending		
Crown	Phase 1: 5	100%	100%	Pending	Pending	Proximity of structures to designated transportation expansion areas	Locate structures in undesignated locations where they are situated on Crown lands
	Phase 2: 7	Pending	Pending	Pending	Pending		
Municipal	Phase 1: 1	100%	100%	Pending	Pending	None to date	N/A
	Phase 2: 7	Pending	Pending	Pending	Pending		
OPG	Phase 1: 0	N/A	N/A	N/A	N/A	None to date	N/A
	Phase 2: 2	Pending	Pending	Pending	Pending		
Railway	Phase 1: 2	N/A	N/A	Pending	Pending	None to date	N/A
	Phase 2: 2	N/A	N/A	Pending	Pending		

Questions:

- Please update Table 3 to reflect the current status of land acquisition.
- Please indicate when Hydro One anticipates securing the remaining voluntary agreements?
- If Hydro One fails to secure voluntary agreements with all affected landowners, is it Hydro One's intention to seek expropriation allowances? If so, please describe the expropriation process Hydro One intends to follow as well as its timing. Please

comment on whether the timing of securing voluntary agreements or seeking expropriation allowances could impact the construction schedule or in-service date.

- i) Please provide the total cost estimate related to potential expropriation activities for the proposed project.
 - ii) Are the costs related to expropriation (including potential OEB proceeding) included in the costs estimate for the Project or will they be incremental to the project costs estimated in the Application?
- d) OEB staff notes that for the private properties in the table above, Hydro One has stated “etc.” under the “Issues” column. Please identify and explain the other issues that have been identified.
- e) OEB staff notes that under the “Resolution Approach” column, Hydro One states “Accommodate minor route refinements where and to the extent possible”.
- i) Please define what a minor route refinement is and provide an example.
 - ii) If applicable, please list any route refinements that have been proposed to landowners during negotiations and if any have been accepted.

Staff-15

Ref: Exhibit E, Tab 1, Schedule 1, p. 7
Exhibit E, Tab 1, Schedule 1, p. 10
Exhibit E, Tab 1, Schedule 1, p. 3

Preamble:

At the first reference, the Application states: “Affected property owners will be advised that they have the option to receive independent legal advice and that Hydro One is committed to reimbursing affected property owners for reasonably incurred legal fees associated with the review and execution of the necessary land rights agreements.”

At second reference, Hydro One states that the Early Access Agreement form is similar to a form previously approved by the OEB⁸ but noted that this form contains “substantive changes”.

⁸ EB-2022-0140, Exhibit E, Tab 1, Schedule 1, Attachment 1.

The Application states that Hydro One will work directly with impacted property owners to negotiate amicable voluntary agreements, which may in some circumstances include full property buyouts, at the property owner's election.

Questions:

- a) How does Hydro One advise affected property owners of the availability of independent legal advice (ILA)? Is this information communicated to property owners orally, or in writing? If the latter, please provide a copy of the standard document.
- b) Some, but not all, of the forms of agreement include provisions relating to ILA. Why do only some of the agreements have ILA provisions?
- c) Please list the changes in the Early Access Agreement from what has been previously approved by the OEB.
- d) How many property owners does Hydro One anticipate will elect for a full property buyout? What is the forecast cost of such full property purchases (i.e., the incremental costs to purchase the entire property instead of acquiring an easement)?

Staff-16

Ref: Exhibit E, Tab 1, Schedule 1, Attachment 8, p. 2

Preamble:

Clause 3 of the Off-Corridor Access Road Agreement states: "The term of this Agreement and the permission granted herein shall be two (2) years from the date written above (the "Term"). HONI may, in its sole discretion, and upon 10 days notice to the Grantor, extend the Term for an additional length of time, which shall be negotiated between the parties."

Question:

- a) Please comment on the interplay between the extension being at the sole discretion of Hydro One, and yet the length of the extension will still be the subject of negotiations between Hydro One and the Grantor? If the length of the extension cannot be agreed to, does Hydro One retain the right to extend the agreement?

Staff-17

Preamble:

The OEB typically imposes a set of [standard conditions of approval](#) (Schedule 1) as part of its leave to construct approvals. As stated in the OEB's [Filing Requirements](#) for Electricity Transmission leave to construct applications, applicants should expect to meet those standard conditions. If an applicant believes that a condition should be modified, the applicant must request any proposed changes and provide supporting rationale in its application.

Question:

- a) Please comment on the OEB's standard conditions of approval for electricity transmission leave to construct applications noted above. If Hydro One does not agree with any of the specific draft conditions of approval noted below, please identify the specific conditions that Hydro One disagrees with and explain why. For conditions in respect of which Hydro One would like to recommend changes, please provide the proposed changes.

Staff-18

Ref: Exhibit B, Tab 9, Schedule 1, pp. 2-3

Preamble:

The table at the above noted reference estimates the impact of the Waasigan Project on the typical residential customer.

Questions:

- a) Please confirm the consumption (kWh) per month that is assumed for the typical residential customer.
- b) If the estimate does not assume a residential consumption of 700 kWh per month, please recalculate the table to reflect a residential consumption of 700 kWh.

Staff-19

Ref: Exhibit B, Tab 7, Schedule 1, pp. 4-15

Preamble:

Hydro One states that the Project lines estimate is based on a fixed price EPC contract that was underpinned by two years of early contractor involvement that allowed two EPC contractors to be involved with the development of Project definition and scoping. Hydro One then issued an RFP, where two qualified EPC contractors provided a fixed price to construct the transmission line of the Project. This procurement process allowed the EPC contractors to obtain competitive market pricing from their suppliers and vendors and to identify and evaluate, engineering, procurement, construction, risks and opportunities during the development of their respective offers. Thus, the cost estimate reflects current market tested EPC pricing to deliver the Project, along with corresponding risk that will be transferred to the EPC contractor.

For the station cost estimate of this Project, Hydro One states that a fixed price EPC execution methodology has been selected to best define and manage project scope, schedule and risk while also providing cost surety in the delivery of a project of this magnitude.

Hydro One states that to construct the large number of new transmission line projects required in Ontario, it has undertaken several new initiatives to deliver these projects in a cost-effective, efficient, and timely manner. Hydro One provide some examples of its initiatives to deliver these new transmission projects which include Early Contractor Involvement (ECI) delivery model.

Hydro One states that the ECI delivery model engages the services of an external engineering firm and the services of EPC contractors (referred to as ECI-EPC). This initiative allows the ECI-EPC contractor to be engaged at an earlier stage of development (typically at a preliminary budgetary estimate stage rather than near the end of detailed estimating or at construction initiation). As such, the ECI-EPC contractor performs many of the development functions that under the standard Hydro One EPC delivery model would be performed internally by Hydro One.

OEB staff notes that the ECI-EPC model is similar to the Construction Manager at Risk (CMAR) model, a project delivery model commonly used for the management of regulated utility assets in other jurisdictions. Like the ECI-EPC model, the CMAR allows the EPC contractor to become involved at an earlier stage of development. CMAR has the potential to yield time and cost efficiencies by obtaining construction manager input

during the design phase and beginning aspects of a construction project before the full design is complete.⁹

Questions:

- a) At a high-level, please explain the differences between the ECI-EPC and the CMAR models.
- b) Please explain advantages, disadvantages and risks associated with using ECI-EPC model vs the standard EPC delivery model performed internally by Hydro One in delivering large scale projects being added to Ontario's transmission system.
- c) Please explain in detail what criteria Hydro One uses to decide whether the ECI-EPC model is appropriate for a particular transmission project?
 - i) Please confirm that the ECI-EPC model was not used in the recent Chatham by Lakeshore application?
- d) Please estimate the total project cost for the Waasigan Project if the standard EPC delivery model was used.
- e) Is there any cost saving from using the ECI-EPC model to deliver the Project versus using the standard EPC delivery model that would be performed internally by Hydro One.
 - i) If yes, please confirm whether the cost saving from using the ECI-EPC model is reflected in the total Project cost?

Staff-20

Ref: Exhibit B, Tab 7, Schedule 1, pp. 4-7
Atrium Economics Report, Exhibit B-7-1, Attachment 1

Preamble:

As noted earlier by OEB staff, for the Project, Hydro One stated that it is using an Early Contractor Involvement (ECI) delivery model. The ECI delivery model engages the services of an external engineering firm and the services of EPC contractors (ECI-EPC). This initiative allows the ECI-EPC contractor to be engaged at an earlier stage of development (typically at a preliminary budgetary estimate stage rather than near the end of detailed estimating or at construction initiation). As such, the ECI-EPC contractor

⁹ [Federal Emergency Management Agency, Fact Sheet - Construction Manager at Risk \(CMAR\) Contracting](#)

performs many of the development functions that under the standard Hydro One EPC delivery model would be performed internally by Hydro One.

Hydro One developed the ECI-EPC model for execution and construction of the types of large-scale projects that Hydro One anticipates being added to Ontario's transmission system in the future.

Hydro One stated that overhead costs allocated to the Project are for Common Corporate Costs. These costs are charged to capital projects through an overhead capitalization rate. As such they are considered to be indirect overhead.

Hydro One noted that a portion of its overheads are allocated to capital expenditures as recognition of the amount of indirect support required to support Project capital work. These allocated costs (overheads) are additional to any directly attributable costs.

Based on Atrium Economics' recommendations, Hydro One is implementing a new overhead capitalization approach to their Project execution model for large-scale projects, such as the Waasigan Project.

Hydro One stated that a five-year weighted average rounded overhead rate of 3.0% will be applied to these types of projects' annual capital expenditures, as shown in Table 6 titled "Hydro One's Overhead Capitalization Rate for ECI-EPC Projects."

Questions:

- a) Please explain whether all capital expenditures for the Waasigan Project will have the five-year weighted average rounded overhead capitalization rate of 3.0% applied, or only select capital expenditures. If it is only select capital expenditures, please list these capital expenditures with the associated overhead capitalization rates.
- b) If the capital expenditures for the Waasigan Project will have different overhead capitalization rates applied, please explain.
- c) Please explain why the 5-year weighted average rounded overhead rate of 3.0% will be applied, instead of 2.5% (5-year weighted average with no rounding), to Projects' annual capital expenditures.
- d) Please quantify the impact of the rounding on the overall costs of the Project.

Staff-21

Ref: Exhibit B, Tab 7, Schedule 1, pp. 4-7
Atrium Economics Report, Exhibit B-7-1, Attachment 1

Preamble:

Hydro One stated that ECI-EPC executed projects are multi-year and significantly larger in scale, and cost, compared to most of Hydro One's transmission projects contemplated in its TSP. As a result, many Hydro One Common Corporate functions in support of the ECI-EPC Projects are being directly assigned from common corporate costs centers versus being allocated through an overhead allocation rate.

Hydro One noted that the recommended overhead rate by Atrium Economics is a blended overhead rate determined by the weighted average portion of projects costs which are:

- ECI-EPC and do not rely on corporate support functions
- Non-ECI-EPC and should attract the standard Transmission overhead rate as they rely on corporate support functions

Figure 1 in the Atrium Economics Report shows the Overhead Capitalization Rate (OCR) Methodology. Its output from the methodology consists of overhead capitalization rates for Tx and Dx that are applied to the costs of Tx and Dx capital expenditures, as applicable, to recover the portion of common corporate costs that support capital expenditures for each business.

Section 4 in the Atrium Economics Report states that the common corporate costs incurred by Hydro One to support these ECI-EPC Contracted Projects is of a different level than Standard Hydro One Tx Projects. A significant portion of each project's total cost relates to Owner's Engineer (OE) and ECI-EPC Contracted work (i.e., Hydro One determined that 79.5% of the capital expenditures will be payments to external contractor and only 20.5% will relate to internal Hydro One incurred costs).

Section 5.3 in the Atrium Economics Report states that the resulting total Direct Capital and total Applicable Capital Overhead Costs associated with ECI-EPC Contracted Projects are utilized in an OCR Calculation identical to the OCR Calculation used for the Tx business as approved in Hydro One's 2023-2027 Application. The OCR calculation is calibrated to contain inputs (e.g., total capital expenditures) relating only to ECI-EPC Contracted Projects. This aligns the numerator (i.e., the allocation of costs to these ECI-

EPC Contracted Projects) with the denominator (i.e., total capital associated with ECI-EPC Contracted Projects). The resulting OCR for the 79.5% of costs associated with external contractor payments averaged 1.0% over five years.

Section 5.4 in the Atrium Economics Report states that a blended rate was calculated using the OCR for the 79.5% of costs associated with external contractor payments weighted at 79.5% and the standard delivery Tx OCR weighted at 20.5%. The results are shown in Figure 3 of the Atrium Economics Report.

Section 5.5 in the Atrium Economics Report states that given the proposed multi-year average for the ECI-EPC Contracted Projects, Atrium recommends Hydro One to annually evaluate the OCR calculation for each year and ascertain if the OCR for the 79.5% of costs associated with external contractor payments used in the blended rate should be updated.

The Atrium Economics Report references the Black & Veatch (B&V) Report that was filed in the JRAP proceeding (EB-2021-0110, Exhibit E-4-8, Attachment 1). Atrium Economics noted that its staff member (Mr. Taylor), in his former capacity with and as a subcontractor to B&V, has been the lead expert in connection with the B&V Report.

Questions:

- a) Please provide a derivation of the proposed OCR amounts in Table 6 (from 2023 to 2027) reflecting Hydro One's Overhead Capitalization Rate for ECI-EPC Projects. Please provide an explanation, as well as supporting calculations of the derivation.
- b) As a high level example, please explain whether the proposed rounded OCR rate for the Project of 3.0% is approximately equal to the sum of:
 - 79.5% multiplied by 1.0% (estimated ECI-EPC Projects portion and associated overhead capitalization rate); and
 - 20.5% multiplied by 10% (estimated Standard Delivery Tx portion and associated overhead capitalization rate) – Note: A 10% percentage has been estimated by OEB staff to factor into the calculations used to derive the proposed rounded OCR rate of 3.0%, given that the rate itself was not disclosed in the application.
- c) Please explain why a 10% percentage noted in part b) of this interrogatory is appropriate, when the "Overhead Capitalization Rates and Amounts for

Transmission and Distribution” for the period 2023 to 2027 ranged from 8% to 9% in the Hydro One JRAP proceeding.¹⁰

- d) Please confirm that the methodology shown in Figure 1 titled “Overhead Capitalization Rate Methodology” in the Atrium Economics Report (which was used to calculate the blended OCR) is the same methodology that was agreed to by parties and accepted by the OEB in the Hydro One JRAP proceeding (EB-2021-0110). If this is not the case, please explain.
- e) If the methodology has since been updated, please describe the updates made to the Atrium Economics Report, as compared to the Report on Corporate Cost Allocation Review that was filed in the JRAP proceeding (relating to the Overhead Capitalization Rate Methodology),¹¹ and state whether any of these changes would materially impact the Project cost amounts.
- f) Please explain whether Hydro One will revise its overhead capitalization rate methodology to reflect the methodology proposed in this application (specifically the blended OCR) for its broader transmission and distribution businesses at its next rebasing for those businesses.

Staff-22

Ref: Exhibit B, Tab 7, Schedule 1, pp. 4-7
Atrium Economics Report, Exhibit B-7-1, Attachment 1

Preamble:

Hydro One has provided information regarding the apportionment of the Waasigan Project and risks in its application.

Questions:

- a) In calculating the blended OCR, please provide a breakdown of capital expenditures that Hydro One determined to be directly related to the ECI-EPC projects and non ECI-EPC projects (standard delivery Tx), as well as a description for each.
- b) Please provide a derivation for the 79.5% of the capital expenditures related to the payments to external contractor.

¹⁰ EB-2021-0110, Exhibit C, Tab 8, Schedule 2, Page 5, Table 1, August 5, 2021

¹¹ EB-2021-0110, Exhibit E-4-8, Attachment 1, August 5, 2021

- i. Please provide an explanation, as well as supporting calculations of the derivation.
- ii. Please provide the resulting OCR for the 79.5% of costs associated with external contractor payments averaged 1.0% over five years in the following format, as well as references:

ECI-EPC Projects	2023	2024	2025	2026	2027	5-year avg.
Utility O&M Prior to Capitalization						
Overhead Capitalization						
Utility O&M						
Overhead Capitalization Rate						

- c) Please provide a derivation for the 20.5% of the capital expenditures related to the standard delivery Tx.
 - i. Please provide an explanation, as well as supporting calculations of the derivation.
 - ii. Please provide the resulting OCR for the 20.5% of costs associated with the standard delivery Tx in the following format, as well as references:

Standard Delivery Tx Projects	2023	2024	2025	2026	2027	5-year avg.
Utility O&M Prior to Capitalization						
Overhead Capitalization						
Utility O&M						
Overhead Capitalization Rate						

- d) Please explain the main factors that could affect the percentage (79.5%) of costs associated with external contractor payments.

Staff-23

Ref: Exhibit B, Tab 7, Schedule 1, pp. 4-7
Atrium Economics Report, Exhibit B-7-1, Attachment 1

Preamble:

The Atrium Economics Report states that under the ECI-EPC approach, the OE/EPC contractors perform many of the development functions that would be performed internally under the Standard Delivery Model.

However, Hydro One also states in the application that many Hydro One Common Corporate functions in support of the ECI-EPC Projects are being directly assigned from common corporate costs centers, versus being allocated through an overhead allocation rate.

Question:

- a) Regarding the Project costs, please explain why Hydro One stated that it is directly assigning costs from common corporate costs centers, while at the same time, the Atrium Economics Report states that many of the development functions are being performed by the OE/EPC contractors (instead of internally by Hydro One).

Staff-24

Ref: Exhibit B, Tab 7, Schedule 1, pp. 4-7
Atrium Economics Report, Exhibit B-7-1, Attachment 1
EB-2021-0169, Hydro One Networks Inc., Decision and Order, October 7, 2021

Preamble:

In the current application, Hydro One stated that in EB-2021-0169, it was granted OEB approval for the ATP Account. This account is being used to track costs for transmission line projects that are expected to be owned by a new transmission partnership.

The ATP Account decision stated that all or part of such projects is expected to be owned by and included in the rate base of a new partnership between Hydro One and one or more partners, as a licensed transmitter, and will not form part of Hydro One's rate base.

Hydro One proposed to use the ATP Account for the Waasigan Project.

The ATP Account decision indicated that a deferral account for the Waasigan Project has been in place for several years. Specifically, this deferral account was first established by an OEB decision issued on March 27, 2015.¹² On September 12, 2019, the OEB issued a decision approving Hydro One's request to change the account from a deferral account to a tracking account.¹³

The OEB determined in the ATP Account decision that the final determination of prudence shall be made at the time that Hydro One or the new partnership applies for disposition of all or part of the ATP Account.

In the background of the ATP Account decision, the following was noted. Hydro One stated that with respect to its proposed methodology for allocation of direct and indirect costs, that direct costs for a project are recorded in Hydro One's financial system using the project's respective project code. Indirect costs are applied by using Hydro One's overhead capitalization methodology that was approved by the OEB as part of Hydro One's most recent revenue requirement application.

In the ATP Account decision, the OEB noted that Hydro One's proposed treatment of costs for the projects using the ATP Account is consistent with the treatment of all of Hydro One's regulated projects including both direct and indirect costs, as well as the allocation of common transmission lines and stations costs.

In the current application, Hydro One stated that the basis for an update to its overhead allocation rate is that fewer indirect resources (i.e., overheads) from Hydro One are required to support the Project because these overheads are being incurred by the ECI-EPC.

Hydro One further stated that it has implemented recommendations made by Atrium Economics in the Waasigan Project's cost estimate, but OEB staff notes that Hydro One was silent on the implementation date.

Questions:

- a) Please explain at what date the change in the overhead capitalization rate methodology will be implemented for the Project, including whether any retroactive

¹² EB-2014-0311, Decision and Order, March 27, 2015

¹³ EB-2019-0151, Decision and Order, September 12, 2019

impacts have been made (or will be made), given that the ATP Account (in its predecessor form) has been in place for the Project since March 2015.

- b) Please explain why the blended OCR does not reflect data from certain historical years, as well as forecast. For example, why are not historical years such as 2022 (actual) and 2023 (actual up to Q3 and forecast Q4), used in the calculations, as opposed to solely 2023 to through 2027 forecasts?
- c) Please explain whether the blended OCR for the 2024 through 2027 forecasts are based on the capital spend for the Project.
- d) Based on part b) of this interrogatory, please provide the revised calculation of capitalization rates, the impact to capitalized overhead and the Project amounts.
- e) Please explain whether Hydro One is proposing that its blended OCR methodology be based forecasted capital versus O&M spending (as opposed to historical), because overhead capitalization rates may be based on forecasted capital work to more accurately reflect both the costs incurred and the capital work undertaken.
- f) Please confirm that the accuracy of business unit capitalization rates, which are based on a forecast of capital work to be done in the year, could be improved by updating rates throughout the year. If so, please explain if Hydro One intends to update the rates. If not, why not.

Staff-25

Ref: Exhibit B, Tab 7, Schedule 1, pp. 4-7
Atrium Economics Report, Exhibit B-7-1, Attachment 1
EB-2021-0169, Hydro One Networks Inc., Decision and Order, October 7, 2021
Filing Requirements for Electricity Distribution Rate Applications - 2023 Edition
for 2024 Rate Applications, Chapter 2, Cost of Service, December 15, 2022, pp.
66 & 67
EB-2019-0082, Draft Rate Order, pp. 25 & 26, May 28, 2020
EB-2021-0110, Decision and Order, November 29, 2022, Settlement Proposal,
pp. 86, footnote #70, October 24, 2022

Preamble:

Hydro One proposed to use the ATP Account for the Waasigan Project.

OEB staff notes that the December 31, 2018 balance of \$0.9 million in the Waasigan Transmission Line Deferral Account (Formerly NWBTL) was disposed in Hydro One's Hydro One Network Inc.'s 2020-2022 Transmission Custom IR Application.

OEB staff also notes that the Waasigan Transmission Line Deferral Account was the predecessor DVA to the ATP Account. As noted in the JRAP settlement proposal, "the Waasigan Transmission Line Tracking Deferral Account was subsequently closed and transferred to the ATP Account."

Questions:

- a) Please explain whether Hydro One will track the difference between the legacy overhead capitalization methodology and the proposed blended OCR methodology until the next rebasing for the Project in a new DVA (e.g., Accounting Policy Changes Deferral Account), or plans to track the differences in the ATP Account.
- b) If a new DVA is being proposed, please provide the following:
 - i. A draft accounting order for this new DVA
 - ii. A discussion on the causation, materiality, and prudence criteria required when requesting the establishment of a new DVA, in accordance with the OEB's direction in its filing requirements
- c) If such differences will be tracked in a new DVA or the ATP Account, please explain at which date such differences will be started to track in the specific DVA. If these differences will not be tracked, please explain.
- d) Please confirm that such differences to be tracked in the new DVA or the ATP Account would be credit entries to the DVA (i.e., a refund to customers). OEB staff notes that the amount of indirect costs applied to capital expenditures will decrease, given the proposed decline in the overhead capitalization rate by using a blended OCR. If any of this is not the case, please explain.
- e) Please provide the annual entries to the DVA or the ATP Account for each year from 2019 to 2023, with a high level description of the methodology used to record these entries. If the entries are to commence using a different year than 2019, please explain.
- f) Given that the ATP Account decision did not take issue with Hydro One's proposed treatment of indirect costs, what was the main driver behind Hydro One proposing the different treatment of indirect costs in the current application for the Project?

Please explain, including why the blended OCR was only brought forward by Hydro One in the current application to the OEB that fewer indirect resources (i.e., overheads) from Hydro One are required to support the Project.

Staff-26

Ref: Exhibit B, Tab 7, Schedule 1, pp. 4-7
Atrium Economics Report, Exhibit B-7-1, Attachment 1

Preamble:

Hydro One has provided information regarding the apportionment of the Waasigan Project and risks in its application.

The Atrium Economics Report states that capitalized overheads are trued-up (in-year) at year-end to reflect actual results for capital implemented under the Standard Delivery Model. Given the proposed multi-year average for the ECI-EPC Contracted Projects, Atrium recommends that Hydro One annually evaluate the OCR calculation for each year and ascertain if the OCR for the 79.5% of costs associated with external contractor payments used in the blended rate should be updated.

Questions:

- a) Hydro One plans to evaluate and update the 79.5% percentage annually, as part of the blended OCR rate. Please explain why the other components of the blended OCR rate will not be updated annually.
- b) Please explain if the actual capitalization rates change until the next rebasing of the Project, whether this would be reflected in the cost of the Project.
- c) Please describe the results of the year-end reviews.
- d) Please explain whether the data used in the overhead capitalization methodology will be updated annually, but the base capitalization rates will be set based on the blended OCR of 3.0% and will not change. Please also confirm that this means that Hydro One is not proposing to make adjustments to the Project's costs to reflect annual updates to overhead capitalization rates.

- e) Please provide any OEB precedent that allows for a blended overhead capitalization rate similar to that being proposed by Hydro One for the Project, including the EB# and the reference to the relevant evidence.
- f) Please provide any OEB precedent that allows the use of one overhead capitalization rate similar to that being proposed by Hydro One for the Project (i.e., the blended OCR), and a different overhead capitalization rate for the remaining Hydro One businesses (i.e., distribution and transmission), including the EB# and the reference to the relevant evidence.
- g) Please explain why the Atrium Economics Report states that while the Overhead Capitalization Rate Methodology uses cost drivers to allocate direct capital and applicable capital overhead costs to the Transmission business, there is no separation between the projects within the Transmission business. Please clarify the statement that “there is no separation between the projects within the Transmission business” when this application proposes separate costs for the Project.

Staff-27

Ref: Exhibit B, Tab 7, Schedule 1, pp. 4-7
Atrium Economics Report, Exhibit B-7-1, Attachment 1

Preamble:

Hydro One has provided information regarding the apportionment of the Waasigan Project and risks in its application.

The Atrium Economics Report recommends reviewing the five-year average of the OCR annually.

Questions:

- a) Please confirm that the changes proposed in the Atrium Economics Report related to the Overhead Capitalization Rate Methodology are reflected in the Waasigan Project amounts presented in this application. If this is not the case, please explain.
- b) If the changes proposed in the Atrium Economics Report related to the Overhead Capitalization Rate Methodology were not reflected in the Waasigan Project amounts presented in this application, please explain whether this would have a

material impact on these project amounts and provide the estimated impact, if material.

- c) If the OEB does not approve either the use of the proposed blended OCR methodology for the Waasigan Project, or the recovery of indirect costs on a capitalized basis (e.g., indirect overheads) in general, please explain whether Hydro One plans to recover these amounts elsewhere as part of the Waasigan Project (e.g., added to Hydro One's OM&A when the Project next rebases or added to amounts accumulated in a specific DVA or the ATP Account). If Hydro One plans to recover, please provide further details.
- d) Please explain in more detail the impacts on the proposed blended OCR methodology for the Waasigan Project, if Hydro One chose to use internal labour, as opposed to outsourcing a large part of the capital program for the Project (i.e., using the ECI-EPC).

Staff-28

Ref: Exhibit B, Tab 7, Schedule 1, pp. 4-7
Atrium Economics Report, Exhibit B-7-1, Attachment 1
EB-2021-0110, Decision and Order, November 29, 2022, Settlement Proposal,
October 24, 2022, p. 54

Preamble:

Hydro One has provided information regarding the apportionment of the Waasigan Project and risks in its application.

Ontario utilities previously reported under Canadian Generally Accepted Accounting Principles (CGAAP), which allowed for capitalization of indirect overheads. Since 2015, CGAAP is no longer applicable, and the majority of utilities have been required to adopt modified International Financial Reporting Standards (MIFRS) for regulatory reporting purposes. Under MIFRS, indirect overhead costs cannot be capitalized, and utilities were required to change their capitalization policies to align with MIFRS so that indirect

overheads are no longer capitalized.^{14 15}

OEB staff also notes that there is uncertainty as to whether Hydro One will be required to adopt IFRS in the near future and therefore, no longer be able to capitalize indirect costs.

In the Hydro One JRAP settlement proposal, the parties agreed that Hydro One should estimate certain impacts of an initial transition from USGAAP to IFRS for regulatory purposes.

Questions:

- a) Please explain whether both Atrium Economics and Hydro One considered differences in its Overhead Capitalization Rate Methodology between IFRS and USGAAP in its review of such methodology. If so, please provide the assessment of the differences. If this is not the case, please explain.
- b) Please explain whether Hydro One would be receptive to performing an independent review that investigates alternate overhead capitalization methodologies used by other utilities in North America (as well as those of Hydro One's Ontario industry peers), including a blended capitalization rate methodology. If so, please provide Hydro One's proposal. Please also explain why the Atrium Economics Report filed in this application did not include such analysis.
- c) Please explain why the Atrium Economics Report did not include any alternatives to that proposed for the Project in this application.

¹⁴ Page 8 & 9 of Article 410 of Accounting Procedure's Handbook, effective January 1, 2012, states that property, plant and equipment include any costs that are directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management. It also states that administration and general overhead costs is an example of costs that are not property plant and equipment.

¹⁵ The OEB required mandatory changes to depreciation and capitalization policies aligned with IFRS as per its July 17, 2012 letter "Regulatory accounting policy direction regarding changes to depreciation expense and capitalization policies in 2012 and 2013".

Staff-29

Ref: Exhibit B, Tab 7, Schedule 1, pp. 1-16
Atrium Economics Report, Exhibit B-7-1, Attachment 1
EB-2019-0082, Draft Rate Order, pp. 25 & 26, May 28, 2020
EB-2021-0110, Decision and Order, November 29, 2022, Settlement Proposal,
pp. 86, footnote #70, October 24, 2022

Preamble:

OEB staff has questions regarding Hydro One's use of USGAAP and capitalization practices.

As noted earlier by OEB staff, the December 31, 2018 balance of \$0.9 million in the Waasigan Transmission Line Deferral Account (Formerly NWBTL) was disposed in Hydro One's Hydro One Network Inc.'s 2020-2022 Transmission Custom IR Application.

OEB staff also notes that the Waasigan Transmission Line Deferral Account was the predecessor DVA to the ATP Account. As noted in the JRAP settlement proposal, "the Waasigan Transmission Line Tracking Deferral Account was subsequently closed and transferred to the ATP Account."

Questions:

- a) Under IFRS, administration and other general overhead costs are explicitly prohibited from capitalization. For 2019 to 2027 for the Project, please quantify, clarify, and explain whether the entire portion of common corporate costs would be considered administration and other general overhead costs, and therefore, prohibited from capitalization under IFRS.
- b) Please clarify and explain whether Hydro One has other costs beyond common corporate costs that would qualify as administration and other general overhead costs that are prohibited to be capitalized under IFRS. If so, please quantify the annual amounts for 2019 to 2027 for the Project.
- c) On a best-efforts basis, please explain, identify, and quantify indirect costs that would not be eligible for capitalization without regulatory approval as per USGAAP. This would include indirect overheads that Hydro One has capitalized under USGAAP Accounting Standards Codification (ASC) 980 for Regulated Operations,

which otherwise would have been expensed under ASC 360 for Property Plant and Equipment had ASC 980 not been applied.

- d) Regarding part c) of this interrogatory, please quantify the impact on the Project from 2019 to 2027.
- e) Regarding part c) of this interrogatory, if this is a challenging undertaking for Hydro One, please explain whether Hydro One could perform this quantification and provide the results at the next rebasing application for the Project, on a best-efforts basis.
- f) Please explain why Hydro One should be allowed to capitalize indirect overheads for the Waasigan Project just because it is under USGAAP.
- g) Please outline the impact on the Project if the OEB does not allow Hydro One to capitalize indirect overheads as requested and recover such indirect overheads on a capitalized basis.
- h) Please confirm that Hydro One would likely need to establish processes in advance of the transition date to IFRS to track the indirect overhead costs that are currently capitalized under USGAAP, but not permitted under IFRS. Please explain whether Hydro One would tract this impact in a DVA (e.g., Accounting Policy Changes Deferral Account or the ATP Account) and whether such a DVA should be established as part of this proceeding for the Project.
- i) Please explain whether Hydro One's viewpoint is that relying on ASC 980 to capitalize indirect overheads is somewhat circular, as ASC 980 permits capitalization only where regulatory approval is probable.

Staff-30

Ref: Exhibit B, Tab 7, Schedule 1, Tables 2-5, pp. 1-3
Exhibit B, Tab 7, Schedule 1, Table 6, p. 7
Atrium Economics Report, Exhibit B-7-1, Attachment 1

Preamble:

Tables 2-5 shows the overhead costs for line and station for Phase 1 and Phase 2. Hydro One states that these costs are charged to capital projects through an overhead capitalization rate.

Table 6 titled “Hydro One’s Overhead Capitalization Rate for ECI-EPC Projects” shows the blended overhead capitalization rate. These rates are duplicated in the Atrium Economics Report’s “Figure 3 – Blended OCR for ECI-EPC Contracted Projects”.

Questions:

- a) Please confirm that the calculated overhead costs in Tables 2-5 are derived using the overhead capitalization rate in Table 6 titled “Hydro One’s Overhead Capitalization Rate for ECI-EPC Projects”. If this is not the case, please explain.
- b) Please provide high level calculations used to derive the overhead costs in Tables 2-5.
- c) Please explain and quantify the capitalized amounts in Tables 2-5 by cost category, including the capitalized amount (\$) and the capitalized rate (%). Please also break down the overheads between direct overheads and indirect overheads. If any of this cannot be done by Hydro One, please explain.
- d) Please provide a separate table showing the results of numbers presented in part c) of this interrogatory based on each of Hydro One’s legacy method and Hydro One’s proposed method for the Project, also including columns for the resulting variances in dollars and percentages. If any of this cannot be done by Hydro One, please explain.
- e) Please confirm that the resulting variances in dollars and percentages shown in the response to part d) of this interrogatory are material. If these variances are not material, please explain why Hydro One is proposing a change to its overhead capitalization rate in this application.
- f) For all of the requests made by OEB staff in parts a) to e) of this interrogatory, if Tables 2-5 do not cover the full period 2019 to 2027, please augment the evidence to cover this period.