



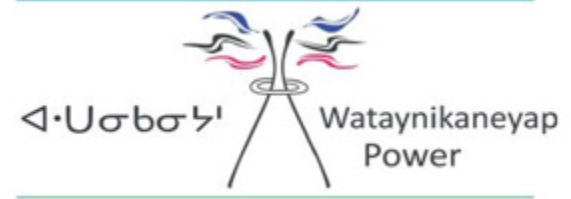
Wataynikaneyap Power LP

Application Presentation

EB-2018-0190

November 2, 2018

Agenda

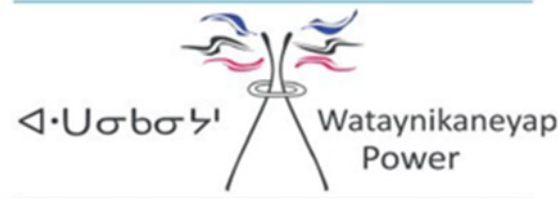


- Welcome and Introductions
- The Applicant
- Project Description
- Unique Aspects of the Application
 - Conversion of Pikangikum Distribution
 - Designation of Distribution as Transmission
 - IESO Scope Requirements
 - Local Distribution Readiness
 - Cost Recovery and Rate Framework
 - Project Funding



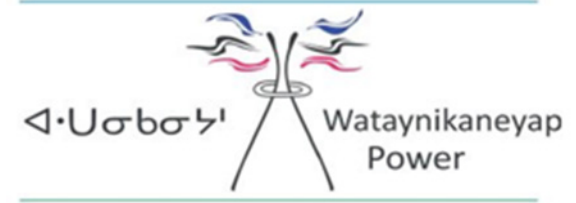
The Applicant

Applicant Structure



- Applicant is Wataynikaneyap Power LP
 - Licensed transmitter (ET-2015-0264)
 - General Partner is Wataynikaneyap Power GP Inc.
- 51% of WPLP held by First Nation LP
 - FNLP held directly by 22 Participating First Nations in equal shares
- 49% of WPLP and WPGP indirectly held by Fortis Inc.

First Nation Participation



- *Wataynikaneyap* means “The Line that Brings Light”
- Partnership among First Nations established to:
 - Provide reliable and accessible energy by
 - Reinforcing supply to Pickle Lake
 - Connecting remote First Nation communities to the provincial grid
 - Work in partnership on transmission development/ownership
- Respect for First Nation lands, rights, principles, way of life
- Respect for natural environment and traditional protocols
- Benefits of project ownership to the communities

First Nation Participation



- FNLP and its general partner are:
 - Majority (51%) owners of WPLP and WPGP
 - Held directly by 22 Participating First Nations in equal shares
- 16 of the 22 will connect as part of the application
 1. Bearskin Lake First Nation*
 2. Cat Lake First Nation
 3. Deer Lake First Nation*
 4. Kasabonika Lake First Nation*
 5. Keewaywin First Nation*
 6. Kingfisher Lake First Nation*
 7. Kitchenuhmaykoosib Inninuwug*
 8. Lac des Mille Lacs First Nation
 9. Lac Seul First Nation
 10. McDowell Lake First Nation**
 11. Muskrat Dam First Nation*
 1. North Caribou First Nation*
 2. North Spirit Lake First Nation*
 3. Pikangikum First Nation*
 4. Poplar Hill First Nation*
 5. Sachigo Lake First Nation*
 6. Sandy Lake First Nation*
 7. Slate Falls First Nation
 8. Wabigoon Lake Ojibway Nation
 9. Wapekeka First Nation*
 10. Wawakapewin First Nation*
 11. Wunnumin Lake First Nation*

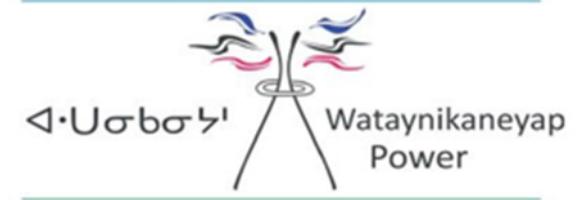
*

Denotes connecting community

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Denotes additional (17th) community to be connected when economic and feasible to do so

Video

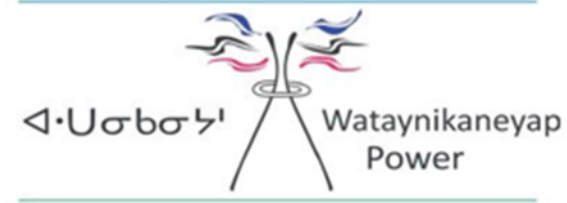


Importance to Remote Communities



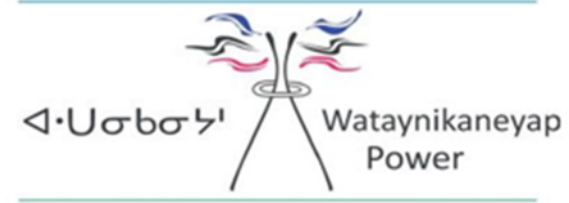
- Currently served by high cost local diesel generation
 - Local distribution by HORCI or IPA
- Diesel fuel delivered by winter roads or air
- Winter peak due to reliance on electricity for heating
- Generation supply capacity limited
- Poor reliability in many of the communities
 - Generators forced to operate beyond rated capacity
 - Long response times to repair/replace equipment
- Frequent/prolonged brown-outs, black-outs and load restrictions associated with diesel generation impact all aspects of life

Importance to Remote Communities



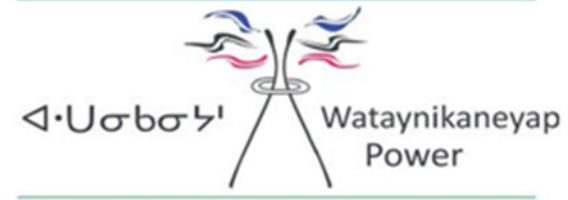
- Without reliable and accessible energy, the communities cannot pursue socio-economic and business development opportunities
- Risks to community health, safety and quality of life
 - Closure/disruption to stores, schools, nursing facilities
 - Access to critical services, food security, clean and running water, sewage systems, medical treatments and devices
 - Overcrowded homes (multiple families) increases transmission of illness/disease, associated with high suicide rates, additional risks for elderly, infants, persons with limited mobility/chronic illness
 - Increased risk of house fires from backup heating sources, difficulty extinguishing fires when water systems disrupted
 - Risks to environment, including air quality and from diesel spills
 - Safety/property risk from power surges when restarting generators

Importance to Remote Communities



- The First Nations, through ceremony and blessing, have stated the following:
 - Our elders and people would never allow us to proceed with this project if it would harm the water, land and animals including the caribou.
 - We are using a system that respects traditional protocols and government compliance requirements.
 - Through ceremony and blessing, the Spirit of the Peoples and Caribou provided guidance, instruction and authority to proceed with the project.
 - Ayakwamizin - ᐱᐱᐱᐱᐱ. These are the laws of our people.

Importance to Remote Communities



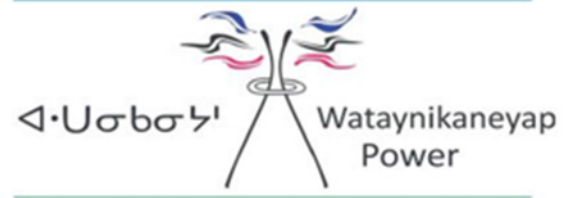
- Extensive community engagement program
 - Aboriginal, Treaty and Inherent Rights
 - Duty to consult delegation
 - Respect for community protocols, principles and autonomy
- Participating First Nations have worked on energy as a regional issue for 27 years
 - Urgent power supply needs
 - Critical to obtain project approval to bring clean, reliable and accessible energy to the remote First Nations

Fortis Inc.

- 49% of LP and GP indirectly held by Fortis Inc.
 - Leading North American electricity and gas utility
 - \$50B in assets, 3 million customers
 - 25,000 km of transmission lines (ITC)
 - Ownership and operation through FortisOntario:
 - Canadian Niagara Power Inc.
 - Algoma Power Inc.
 - Cornwall Electric
 - Wataynikaneyap Power PM

PROJECT DESCRIPTION

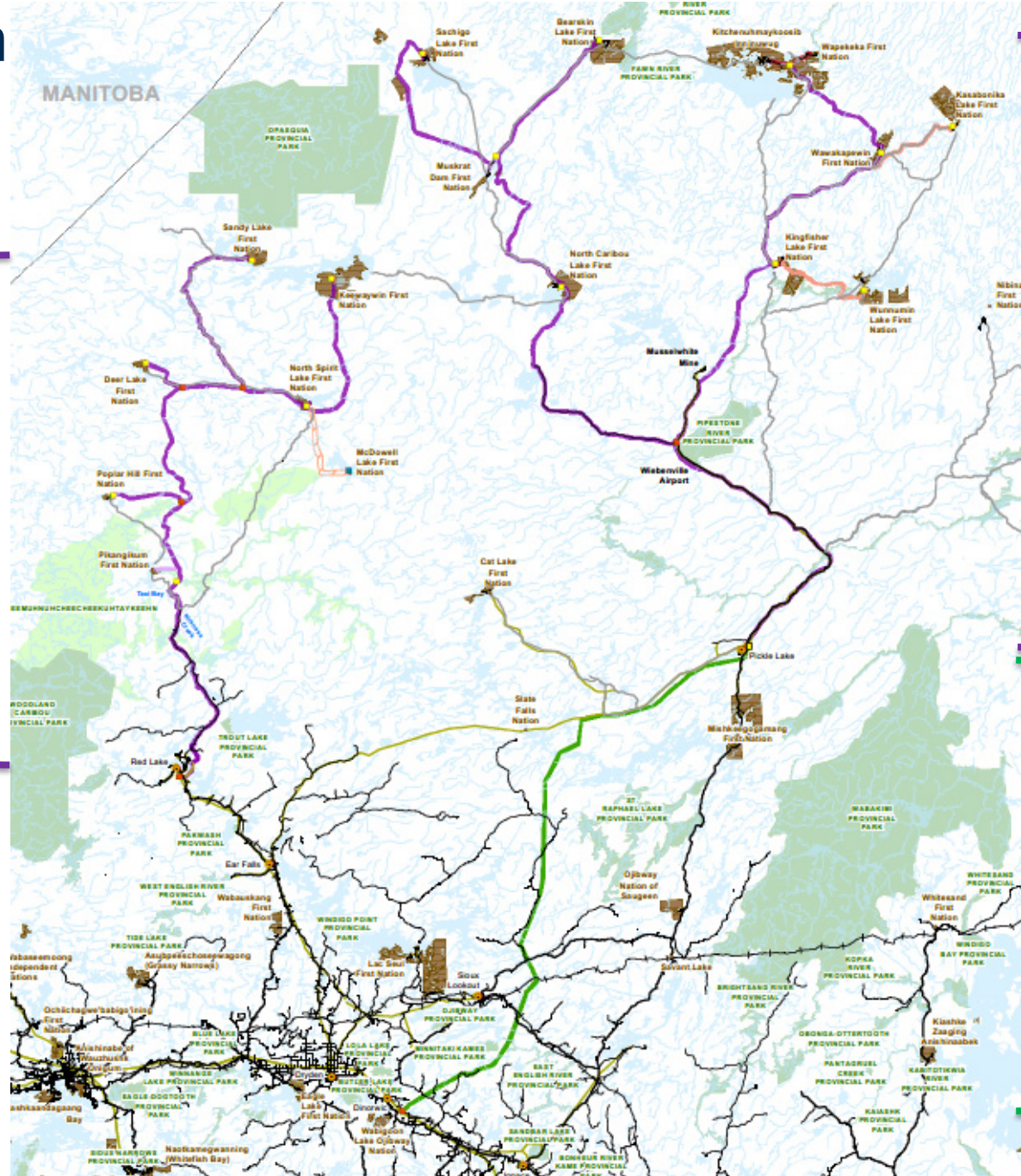
Project Overview



- New 1,729 km transmission system in northwestern Ontario will:
 - Reinforce transmission to Pickle Lake
 - New 303 km, 230 kV transmission line from a point between Dryden and Ignace to Pickle Lake
 - Connect 16 remote First Nation communities
 - 896 km of new 115 kV, 44 kV and 25 kV lines north of Pickle Lake
 - 531 km of new 115 kV and 25 kV lines north of Red Lake

Transmission Line Routing

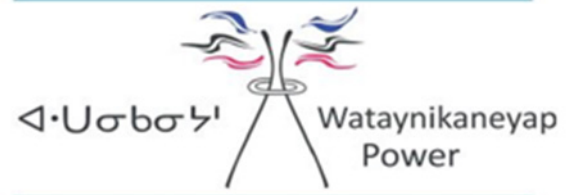
Red Lake Remote Connection Lines



Line to Pickle Lake

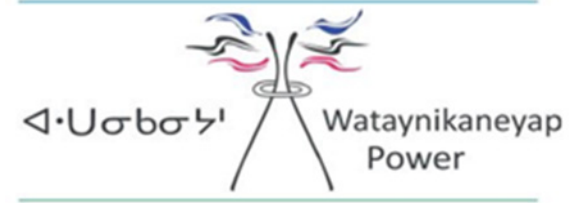
Pickle Lake Remote Connection Lines

Consequences of the Pickle Lake Reinforcement



- Currently a single supply point for North of Dryden area
- Some segments more than 70 years old
- Historically poor reliability
 - Worse than average (~11 unplanned outages/year vs. average of 3/year) for northwestern Ontario
- Line to Pickle Lake will:
 - Improve reliability and power quality
 - Reduce transmission losses
 - Reduce frequency and duration of planned outages
 - Provide capacity to connect remote communities north of Pickle Lake and north of Red Lake

Consequences of the Remote Connection Lines



- Currently served by high cost local diesel generation
- Generation capacity limited and reliability generally poor
 - New load connections and existing customers constrained
- Remote Connection Lines will:
 - Enable supply to meet current and long-term demand
 - Improve reliability and power quality
 - Reduce environmental risks associated with diesel
 - Facilitate business and economic development
 - Support community infrastructure, health and education
 - Provide employment and training opportunities
 - Enable future connection of other communities/customers

Impact Assessments



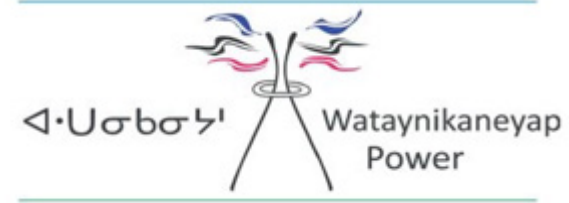
- No impacts on reliability of the integrated power system or existing HONI customers
- Line to Pickle Lake/Pickle Lake Remote Connection Lines
 - Final IESO System Impact Assessment June 1, 2018
 - Final HONI Customer Impact Assessment July 9, 2018
- Red Lake Remote Connection Lines
 - Final IESO System Impact Assessment June 7, 2018
 - Final HONI Customer Impact Assessment July 9, 2018
- IESO and HONI have confirmed no changes needed due to minor routing amendments filed October 5

Environmental Assessment



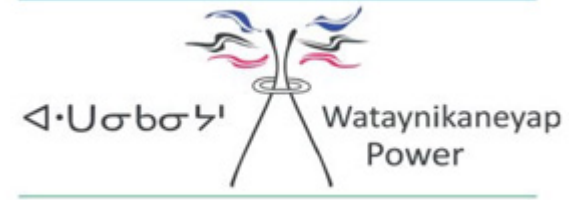
- Line to Pickle Lake
 - Individual Environmental Assessment (EA) process under Ontario Environmental Assessment Act (EAA)
 - Final EA Report under review by Minister
 - One request for hearing (decision pending)
- Remote Connection Lines
 - Comprehensive engagement and effects assessment
 - Addresses all provincial Class EA requirements under the EAA and additional federal requirements from Indigenous Services Canada (ISC)
 - Draft Environmental Study Report (ESR) public review period completed
 - Final ESR being prepared
- EA routing is aligned with amended Application routing

Stakeholder Consultation and First Nations Engagement



- Comprehensive engagement with First Nations and Métis
 - Started early, multiple rounds and opportunities for input
- Comprehensive consultation with landowners, communities, municipalities, other stakeholders
 - Ongoing facilitation of stakeholder understanding, opportunities to share comments, insights, concerns
- All input documented and meaningfully considered

Cost and Schedule



- Total estimated cost is \$1.65B, including development, construction, contingency, capitalized interest, AFUDC
- Subject to LTC timing / other approvals, original plan was to:
 - Commence construction in Q1 2019
 - Line to Pickle Lake in service by Q4 2020
 - Connect first community in Q1 2021
 - Complete all construction by Q4 2023
- Cost, schedule and execution risk mitigation
 - Project controls, engagement and partnerships with First Nations, pursuit of funding contributions, project design, procurement execution strategies

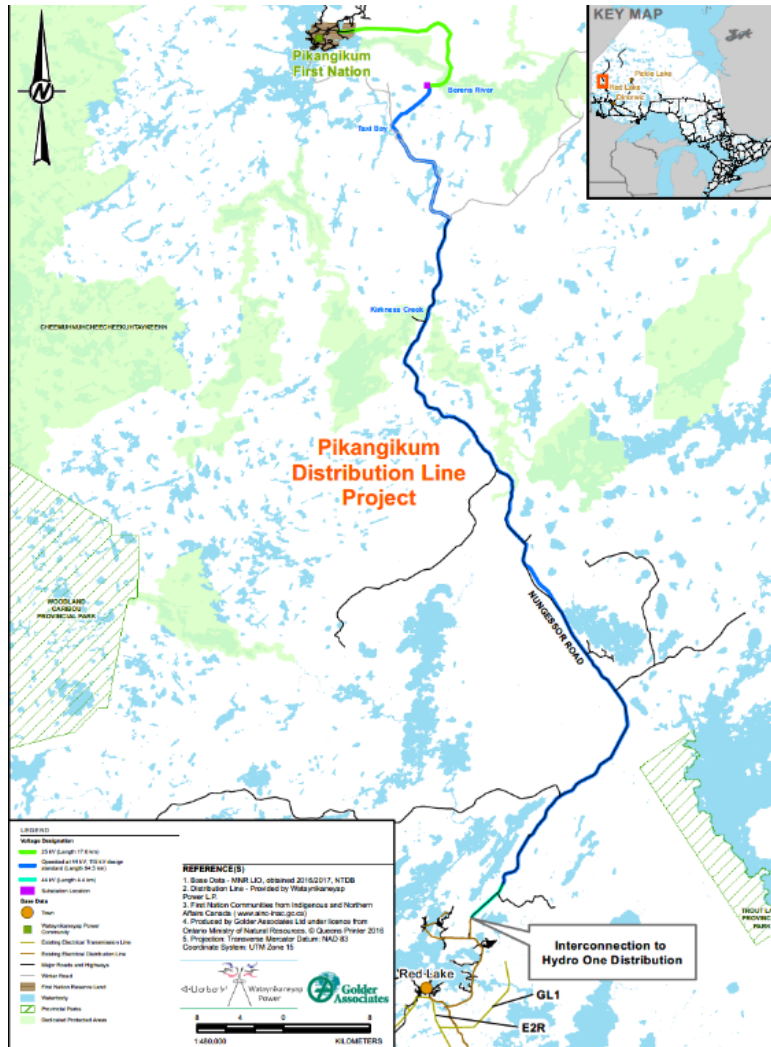
UNIQUE ASPECTS OF THE APPLICATION

Conversion of Pikangikum Distribution Line

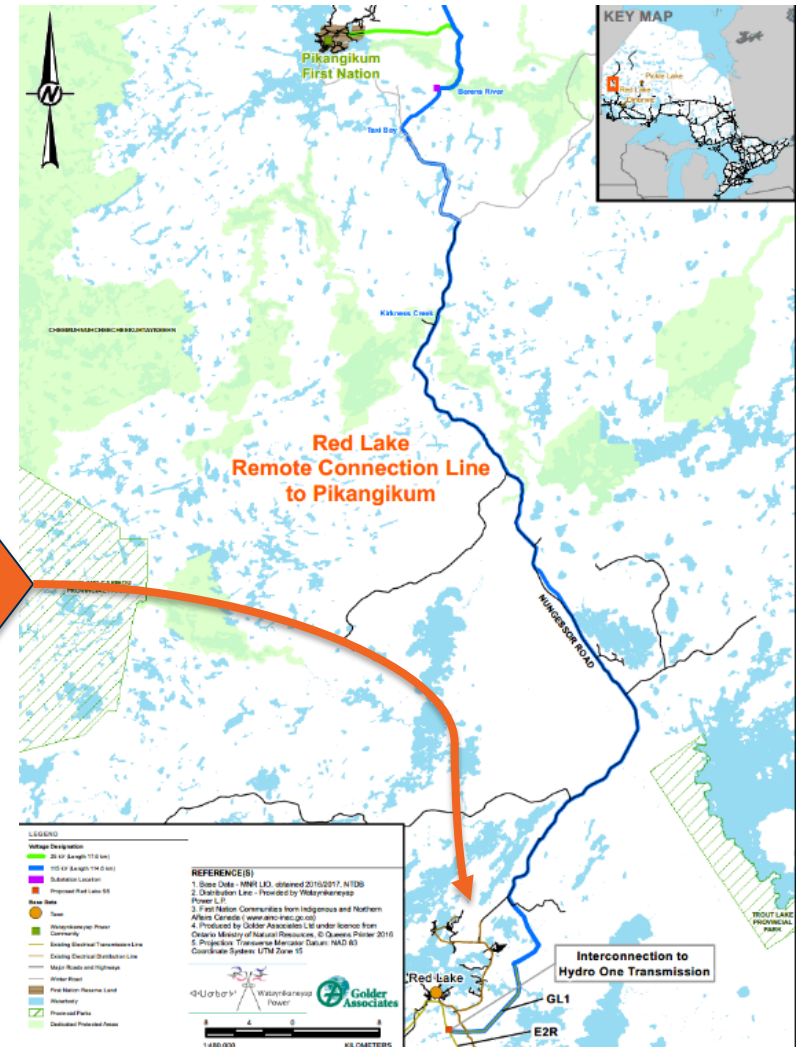


- Prior EA and development activities by Pikangikum First Nation
- Urgent need for grid connection on interim basis until community can be served by WPLP's transmission system
- WPLP obtained distribution licence in 2017
- Constructing 117 km line from Red Lake to Pikangikum
 - 99 km constructed at 115 kV, operated at 44 kV for 3-4 yrs
 - 18 km from Pikangikum TS to HORCI system constructed, and will operate, at 25 kV pre- and post-conversion
- Conversion:
 - 4 km (of the 99 km) at south end to be removed from service
 - New 19 km 115 kV segment will connect remaining 95 km to HONI transmission system at WPLP's new Red Lake SS
- Planned in-service by end of 2018

Conversion of Pikangikum Distribution Line



Distribution to
Transmission
Conversion

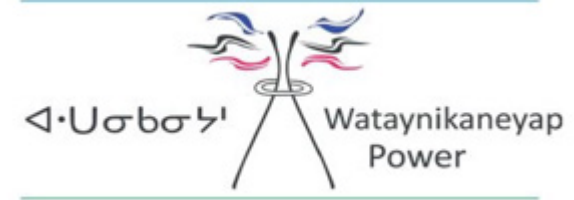


Designation of Distribution Lines as Transmission Lines



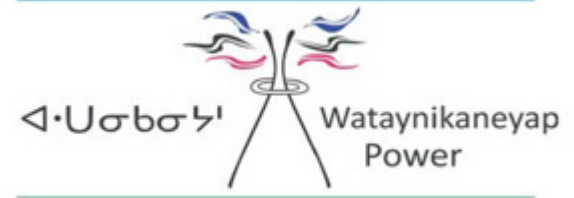
- Requesting 44 kV and 25 kV segments be deemed transmission despite voltage of less than 50 kV
 - 2 segments totaling 93 km will operate at 44 kV
 - 15 segments totaling 45 km will operate at 25 kV
- Designed at lower voltages to optimize design, minimize footprint, reduce costs of construction and operation
- Functionally part of the transmission system
- Consideration given to line loss impacts
- Consistent with IESO Scope Report

Need to Conform to IESO Scope Document



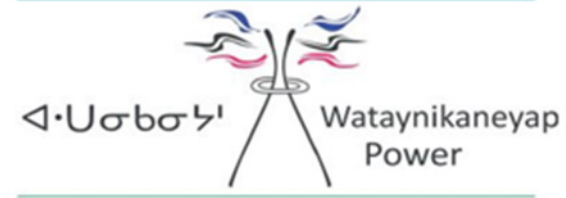
- Per OIC, Directive and Licence project must be in accordance with IESO recommended/supported scope
- IESO Scope Report includes:
 - Scope of the project and transmission components
 - General locations, interconnection points, voltage, capacity
 - Key equipment and equipment ratings
- Consultation with IESO during design and SIA process
- IESO letter of June 21, 2018 confirms the proposed transmission facilities are consistent with Scope Report and sufficient progress made to facilitate backup supply

Local Distribution Readiness



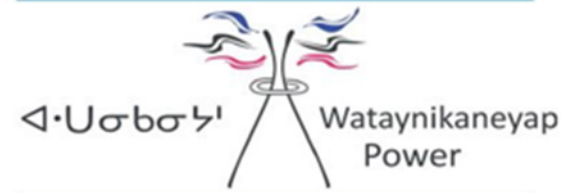
- Currently for the connecting communities:
 - 9 served by HORCI
 - 7 served by independent power authorities (IPAs)
- IPAs will transition to HORCI prior to connection
 - Technical/environmental reviews, asset transfers, system upgrades, operating facilities, operating agreements, licence amendments
- WPLP engaged and facilitated dialogue among communities, HORCI, IPAs and ISC to help ensure connection readiness

Exemptions from TSC Connection Procedures



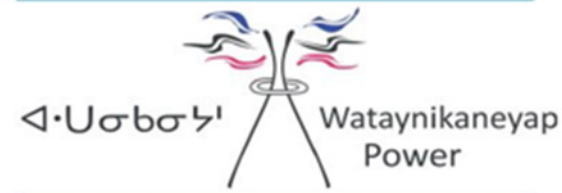
- Requested exemptions:
 - 6.1.8 requires certain treatment of connection requests before connection procedures approved
 - Exemption enables connection of remote communities before assuming obligations in respect of additional connection requests
 - Plan to file connection procedures at time of initial rate application
 - 6.2 establishes requirements for assigning available capacity on network and connection facilities
 - Will consider as part of connection procedures to be filed
 - Assigning capacity based on historical peak load may not be suitable
 - 6.4 establishes requirements for undertaking CIAs
 - CIA/SIA by HONI/IESO for entire project to connect remotes
 - No benefit from additional CIA for each connecting community

Cost Recovery and Rate Framework



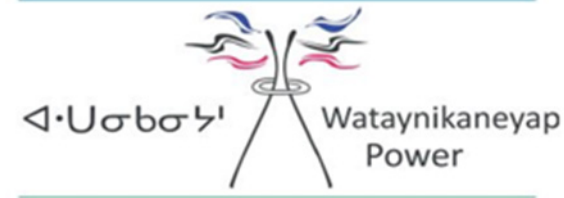
- Due to unique aspects, particularly re Remote Connection Lines, the Project does not fit existing regulatory framework for cost responsibility or revenue recovery under the TSC
 - Creates anomalous results and affects financial viability of project
- WPLP seeks licence amendments to exempt it from parts of the TSC, including re recovery of capital contribution for Remote Connection Lines, which are “line connections” under the TSC
- In parallel with the exemptions, WPLP seeks approval of an alternative rate framework to ensure it has sufficient revenue to operate in a financially viable, safe and reliable manner
- Under the alternative framework, the implications for ratepayers are the same as under the TSC and UTR
 - Also compatible with government funding arrangements

Cost Recovery and Rate Framework



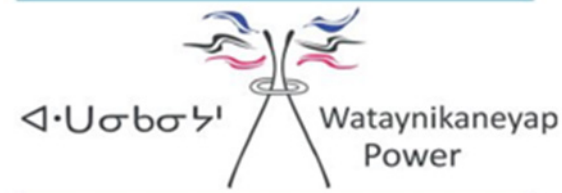
- Unique aspects of the project put it outside the framework contemplated by the TSC:
 - TSC framework based on premise of connection to an existing system where load customers “elect” to be served by pre-existing transmitter-owned facilities and, if necessary, transmitter requires capital contribution
 - TSC does not envision circumstances where:
 - An entire transmission system is being constructed by a transmitter to connect a series of distribution systems
 - Capital contribution reflects not just the costs of an upgrade to an applicable line connection or transformation, but rather the construction costs for almost an entire transmission system

Cost Recovery and Rate Framework



- Under the existing TSC framework:
 - Line to Pickle Lake classified as “network facilities”
 - Charged through Uniform Transmission Rates (UTR)
 - Remote Connection Lines are “connection facilities”
 - Economic evaluation establishes need for upfront capital contribution from HORCI of ~\$1.26B
 - WPLP rate base of \$0.39B despite project cost of \$1.65B
 - WPLP would carry all development, construction and operations risk with no financial incentive for WPLP partners to participate
 - Insufficient revenue stream to leverage for financing
 - Insufficient asset value to generate earnings for reinvestment
- Alternative framework needed for a financially viable project

Cost Recovery and Rate Framework



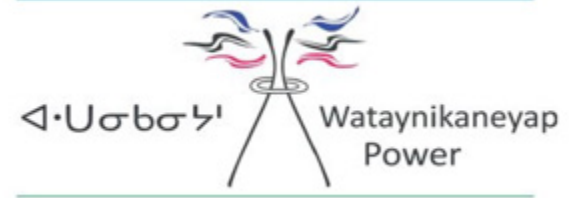
- Approval of alternative framework is critical to project success as clarity will enable future financing
- Board would be approving an alternative to the requirement for an upfront capital contribution, which:
 - Avoids cross-subsidization under UTR
 - Results in rate that's based on WPLP revenue requirement
 - Forms part of HORCI revenue requirement to enable RRRP funding
 - Is compatible with government funding framework
 - Facilitates provincial policy objectives

Cost Recovery and Rate Framework



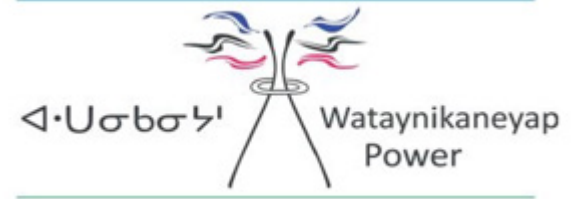
- Under the proposed alternative framework:
 - Addition to rate base of capital cost for Remote Connection Lines results in revenue requirement impact that includes cost of capital based on WACC (at 60/40 ratio) and return of capital through depreciation expense
 - Capital cost for Remotes recorded and accounted for separately from Line to Pickle Lake with a segregated pool
 - OM&A expense allocated between Remotes and Line to Pickle Lake on basis of direct and indirect costs allocated based on proportionate asset value in each rate base pool
 - Resulting revenue requirement impact from Remotes charged to HORCI through rate applicable to service provided from Remotes
 - Rate charged would be an expense in HORCI's revenue requirement and thereby form part of funding calculation for RRRP payable to HORCI
- Revenue requirement impact of all other capital/OM&A (i.e. Line to Pickle Lake and part of Remotes) recovered via UTR
- Enables revenue sufficient to operate in a financially viable, sustainable, safe, reliable manner without impacting ratepayers relative to existing framework

Transmission Rate Impacts



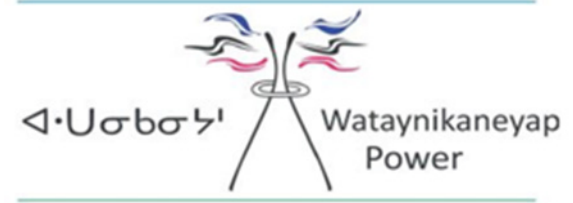
- LTC is in the public interest even if government funding is not provided as contemplated in MOU, resulting in:
 - Line to Pickle Lake
 - Recovered through UTR as Network Asset
 - Est. impact on Network Service Rate of \$0.12/kW/month
 - Remote Connection Lines
 - Alternative rate framework proposed by WPLP
 - Recovery through RRRP pool
 - Est. impact on RRRP rate of \$0.0007/kWh (assumes no funding received under MOU with Canada and Ontario)
 - Combined bill impact to typical residential customer consuming 750 kWh/month is est. \$0.75/month or 0.64%

Treatment of Project Funding



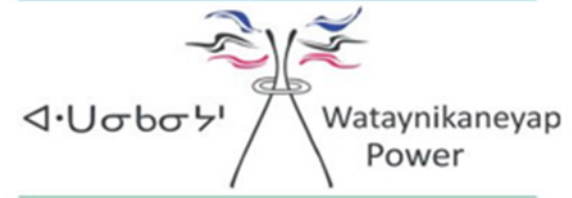
- MOU with Canada and Ontario in March 2018
 - Funding provided by Canada
 - Contemplates funding in two tranches for total of \$1.56B
 - \$770M on substantial completion
 - \$785M on final completion
- Creation and funding of Trust subject to final definitive documents and appropriation by Parliament

Treatment of Project Funding



- Canada will fund the Transmission Project in two parts:
 - as a capital contribution paid to WPLP, with
 - the remainder of the funding commitment placed in an independent trust (the “**Trust**”)
- The Trust will be formed in accordance with a Trust Agreement between Canada, Ontario and the independent Trustee
- Purpose of the Trust is to offset the impact on RRRP of any rates charged by WPLP in respect of transmission services
- Funding arrangement computes:
 - Equity contribution by WPLP to Project (reflected in rate base)
 - Canada funding to WPLP in the form of a capital contribution
 - The amount contributed to the Trust

FUNDING EXAMPLE

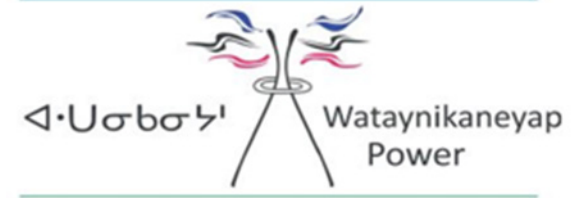


■ Total construction costs	\$1,610 M (a)*
■ Total estimated AFUDC	<u>\$ 137 M (b)</u>
■ Rate base before capital contribution (a + b)	\$1,747 M (c)
■ Implied rate base**	<u>\$1,550 M (d)</u>
■ Capital contribution directly to WPLP (c – d)	<u>\$ 197 M (e)</u>
■ Amount allocated to the Trust (\$1,550M – e)	\$1,353 M

* The difference between \$1,610M and the \$1,650M project cost identified in the Application is that \$1,610M reflects the total cost of the project before AFUDC, but including Pikangikum, fleet and facilities costs, which are not relevant to the Leave to Construct Application but will instead be considered as part of rate applications for the relevant facilities. The \$1,650M excludes those items but includes AFUDC.

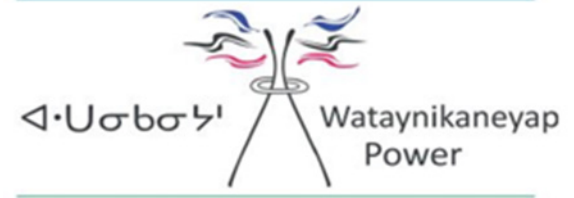
** Per the Funding MOU, a capital cost of \$1,610M assumes \$620M of equity from the owners of WPLP. Implied rate base is calculated by dividing the equity by 40% (\$620M/40% = \$1,550M)

Rate Impact With Funding



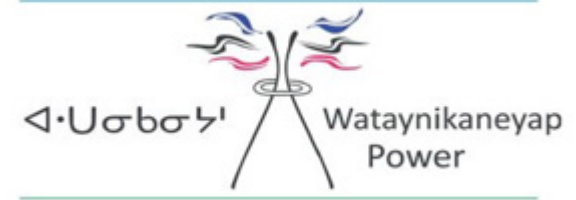
- WLPL will request a unique transmission rate chargeable to HORCI for the revenue requirement impact of the Remote Connection Lines
- The rate will form part of HORCI's revenue requirement, which is funded through RRRP
- The effect of funding on rates will depend on:
 - the allocation of funding between an amount paid as a capital contribution to WPLP
 - the pace at which the funds are used to offset RRRP increases which, as the Trust is independent of WPLP, is wholly within the discretion of the Trustee
 - the amount earned on funds in the Trust, which will be a factor as to the length of time that the offset is available

Rate Impact With Funding



- These factors will determine the life of the Trust and the period over which RRRP impacts will be offset. For example:
 - If Trust offsets RRRP to account for full impact of WPLP's revenue requirement related to the Remote Connection Lines, offsets could be made for approx. 13 yrs, on the very conservative assumption that no interest is earned on funds in the Trust
- Notably, when there are no further offsets of RRRP by the Trust, the overall impact on the typical residential customer will be less than the current estimate on a without funding basis (set out in slide 32) due to capital depreciation over time
- From a govt / public policy perspective, however, it is WPLP's understanding that the overall combination of the avoided costs of diesel over the life of the project (reflected in RRRP), increased revenue to HORCI with 7 additional communities, and the Canada funding will place rate payers in a neutral position.

Deferral Accounts



- Existing development costs deferral account
- Requesting new Construction Work in Progress Deferral Account
 - Transfer costs from development costs account
 - Record capital costs from date of LTC order until such time as OEB approves inclusion of amounts in rate base
 - Objective of enhancing transparency in tracking costs and facilitating future prudence review



Thank You