



PUBLIC INTEREST ADVOCACY CENTRE

LE CENTRE POUR LA DEFENSE DE L'INTERET PUBLIC

ONE Nicholas Street, Suite 1204, Ottawa, Ontario, Canada K1N 7B7
Toronto Office: 34 King St E Suite 1102 Toronto Ont. M5C 2X8

February 26, 2010

VIA E-MAIL

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge St.
Toronto, ON
M4P 1E4

Dear Ms. Walli:

Re: Hydro One Networks Inc. – Application to for the Additions of Projects to a Deferral Account Previously Authorized in Proceeding EB-2008-0272

Board File: EB-2009-0416

As Counsel for the Vulnerable Energy Consumers Coalition (VECC), I writing to provide VECC's submissions regarding the above application by Hydro One Networks Inc.

Background

In its EB-2008-0272 Decision regarding Hydro One Networks' 2009-2010 Transmission Revenue Requirement Application, the Board authorized¹ the establishment of a deferral account to capture preliminary planning costs for 17 projects specifically identified in the OPA's IPSP plus pre-engineering development work for additional generation initiatives at Darlington "B" GS. In the current Application, Hydro One Networks is requesting that the Board amend the existing Board Order to include the OM&S development costs for additional long-term projects. The additional projects are ones referenced in a Ministerial letter to the Company² requesting that it "immediately proceed with the planning, development and implementation" of specific Transmission projects.

1 Page 60

2 Energy Probe #1, Attachment 1

Submissions

VECC generally agrees with Hydro One Networks' characterization of the projects it is now seeking to include in the existing Deferral Account, as set out in response to Board Staff #1, part (1) and Board Staff #5, part (1). These projects, like the ones identified in the IPSP, are being driven by factors outside of Hydro One Networks' control. In this case it is the Ontario government's energy policy. Furthermore, the costs involved are material and outside of Hydro One Networks' control to the extent the Minister has identified the specific projects to be pursued. With respect to the matter of prudence, Hydro One Networks has acknowledged that there is no guarantee of cost recovery and that the prudence of any costs recorded in the deferral account will be determined by the Board³.

In considering Hydro One Networks' request, it is VECC's view that the request for deferral account treatment for 2010 spending should be considered separately from that for spending post-2010. The reason is that for 2010 Hydro One Networks has an approved transmission revenue requirement and an approved deferral account that covers the planning cost for 18 projects. In terms of 2010, Hydro One Networks has indicated that the anticipated 2010 spending to be recorded in the deferral account is \$32.7 M⁴ and a key issue is whether the 2010 spending on these additional projects should be considered as covered by either the approved 2010 revenue requirement or the already deferral account for planning costs.

VECC has reviewed Hydro One Networks' EB-2008-0272 Application and it appears that there was no allowance for planning and development costs for these projects included in the requested revenue requirement. However, it is not clear if the \$32.7 M Hydro One Networks now states will be recorded in the deferral account for 2010 refers to just the newly requested projects or to the total anticipated spending on both the previously approved plus the newly requested projects. Given that the 2010 spending forecasted for the originally approved 18 projects was only \$11.2 M⁵, VECC finds it hard to accept that the newly proposed 14 projects would involved over \$30 M in spending in 2010. Furthermore, there is an overlap between the projects included in the existing approved deferral account for preliminary planning costs and the current list of projects which Hydro One Networks is seeking to "add" to the list covered by the deferral account⁶.

CME interrogatory #1, parts (c) & (d) requested information regarding the planned annual expenditures for each of projects currently included in the account and each of projects proposed for inclusion in the account. However, Hydro One Networks did not provide any updated 2010 information regarding the currently approved projects or the expected 2010 spending for the currently requested projects. As a result, the Board does not know how much of the anticipated \$32.7 M is associated with projects not already approved for inclusion in the Account and therefore what the materiality of the

3 Board Staff #1, part (2)

4 Board Staff #5, part (5)

5 EB-2008-0272, Exhibit C1/Tab 2/Schedule 3, page 7

6 Board Staff #2, part (2)

additional planning costs Hydro One Networks anticipates it will incur in 2010 is. Also, since it is the norm that budgets and spending priorities will change over the course of a year, there is no indication that these costs are not manageable within the cost envelop provided by Hydro One Networks' approved revenue requirement and deferral accounts. On this basis, VECC submits that the request for expansion of the existing deferral account for 2010 should be denied.

For the period beyond 2010, VECC submits that Hydro One Networks' request for a deferral account is premature. Hydro One Networks will soon be filing a Transmission Revenue Requirement application for 2011 and 2012. Furthermore, in response to interrogatories regarding its current request for a deferral account the Company has indicated that:

- Projections regarding annual spending on planning activities for each project will be filed as part of its upcoming Transmission rates case⁷,
- Information regarding the future installation of renewable generation in Ontario is continuing to emerge from the OPA⁸.
- There are interdependencies between the projects that need to be better understood⁹.

Given these shortcomings in the currently available information and the fact a decision for 2011 is not required at this time. VECC submits that the Board should defer the decision and consider it as part of the upcoming application.

Should the Board decide to approve the requested accounts at this time, then VECC submits that the Board should make it clear to Hydro One Networks that prudence goes beyond simple demonstration of cost control but will also require Hydro One Networks demonstrate that:

- Adequate attention was given to the interdependencies between the various projects as described in response to Board Staff #2, part (1). The Board should expect that significant spending will only be undertaken for enabling lines if there is sufficient inter-area bulk transfer capability to permit generation to actually utilize the lines.
- Commitments to incurring any development and implementation costs are consistent with the anticipated timelines and required in-service dates for the projects concerned. In this regard, the expectation would be that Hydro One would continue¹⁰ to work closely with the OPA and eventually provide the Board with supporting documentation to substantiate its decisions regarding commitments to spending for the planning, development and implementation phases of the identified projects.

7 CME #1, part d)

8 Board Staff #3, part (2)

9

10 Board Staff #3, part (2)

- The Company has adequately responded to the matters raised under item #4 of the Minister's September 21, 2009 letter regarding the involvement of third parties.

Also, as noted earlier, Hydro One Networks appears to be requesting the approval of the inclusion of four projects that were already authorized by the Board's EB-2008-0272 Decision¹¹. It is unclear to VECC as to why this second authorization is required. This is particularly so when there are other projects in the Minister's letter which were authorized for deferral account treatment in the Board's previous Decision¹² and which are not included in the current request. VECC invites Hydro One Networks to clarify this inconsistency in its Reply Submissions.

Finally, while not an immediate matter for consideration by the Board, there is one other issue on which VECC wishes to comment. In response to CME #1, part (i), Hydro One Networks indicated that, as part of its pending application for 2011/2012, it would be seeking recovery of the amounts recorded in the Deferral Account to the end of 2009 based on audited financial statements. In its EB-2008-0272 Decision the Board stated¹³:

"Accounting principles dictate that expenditures for preliminary and planning work related to projects are to be capitalized. If the projects do not materialize, the pre-engineering expenditures cannot be capitalized, which poses a risk in this case for Hydro One. It is this risk that the company seeks to minimize by seeking Board authorization for the proposed account."

As a result, it is VECC's view that Hydro One Networks should not be seeking to dispose of amounts recorded in the account until it is established whether the associated project will proceed or not. At that point in time, if the project is to proceed then Hydro One Networks should seek to clear the balance to the capital account for the project. If not, then the balance would be cleared by means of a rate rider. In either case, the amounts to be cleared would be subject to review.

Costs

VECC submits that its participation in this proceeding has been focused and responsible. Accordingly, VECC requests an award of costs in the amount of 100% of its reasonably-incurred fees and disbursements

Yours truly,

Michael Buonaguro
Counsel for VECC

¹¹ Board Staff #2, part (2)

¹² Board Staff #2, part (3)

¹³ Page 59