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**Susan Frank**

Vice President and Chief Regulatory Officer  
Regulatory Affairs



BY COURIER

March 5, 2010

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

Dear Ms. Walli:

**EB-2009-0416 – Hydro One Networks' Application to Amend Deferral Account – Hydro One Networks' Reply Submission**

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I am attaching two (2) copies of the Hydro One Networks' Reply Submission.

An electronic copy of the responses has been filed using the Board's Regulatory Electronic Submission System (RESS) and the proof of successful submission slip is attached.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Attach.

c. EB-2009-0416 Intervenors (Electronic only)

## HYDRO ONE REPLY SUBMISSION

In the 2008-0272 Hydro One Networks' 2009-2010 Transmission Revenue Requirement Decision With Reasons (May 28, 2009), the OEB approved the establishment of an "IPSP and Other Preliminary Planning Costs Account". Since then, the *Green Energy and Green Economy Act, 2009* (GEGEA) has received Royal Assent. On September 21, 2009, the Ontario Minister of Energy and Infrastructure issued a letter to Hydro One requesting that it immediately proceed with the planning, development and implementation of a number of transmission and distribution projects which allow the grid to accommodate additional renewable generation as per the policy objectives of the GEGEA, as well as seek the necessary approvals for these projects.

On December 3, 2009 Hydro One submitted a request to the Ontario Energy Board to amend the list of projects associated with the "IPSP and Other Preliminary Planning Costs Account". This request for the inclusion of additional projects was driven by the GEGEA and the need to commence work on these additional projects to meet the target in-service dates identified in the Minister's letter.

Hydro One is requesting that the OEB amend the list of projects whose development costs can be collected in the deferral account rather than requesting that costs be expensed in the year incurred. The prudence of all costs recorded in the deferral account will be determined by the Board at the time Hydro One requests the disposition of the account balances.

Subsequent to the December 3, 2009 letter, there has been further evidence provided by the Company in the form of a letter from Ms. Susan Frank to Ms. Kirsten Walli dated December 15, 2009 – Application to Amend Approved Deferral Account for IPSP & Other Long Term Projects Preliminary Planning Costs and on February 19, 2010 Hydro One provided responses to Board Staff and Intervenor interrogatories.

1 Hydro One is not asking the Board to change the criteria, methodology or accounting  
2 recognition surrounding the treatment of the pre-IPSP projects that the Board approved in  
3 their EB-2008-0272 Decision With Reasons. Hydro One is simply requesting to add  
4 similar projects that we have been directed to undertake subsequent to the OEB Decision.  
5 It is noted on page 59 of the OEB Decision that:

6  
7 *“An important consideration in this specific request is that Hydro One’s activities are*  
8 *clearly driven by current Ontario energy policy. Hydro One itself is not the driver*  
9 *behind these expenditures; as the largest transmission utility in the Province, it is*  
10 *responding to the policy drive by the Ontario government to meet certain objectives*  
11 *regarding new generation.”*

12  
13 Hydro One has received further submissions on this proceeding from Board Staff, the  
14 Canadian Manufacturers and Exporters (CME), the Consumers Council of Canada  
15 (CCC), Energy Probe Research Foundation (Energy Probe) and the Power Workers  
16 Union (PWU). The intent of this reply submission is to respond to the key issues that  
17 have been raised and it should be noted that failure to comment on all points raised by the  
18 parties does not imply Hydro One’s agreement on those issues.

19  
20 Board staff noted that the development cost estimate originally proposed for the projects  
21 sought to be included in the deferral account of \$167.7 million has been reduced to  
22 \$125.5 million in Hydro One’s response to Board Staff Interrogatory #2. Given the broad  
23 scope of development work activities and the potential for changing requirements and  
24 assumptions, cost estimates for the development work will change over time. There are  
25 two key reasons for the reduction in total estimated development costs. The first is an  
26 anticipated reduction in the development work required for Enablers in Southern Ontario  
27 as a result of the expectation that Hydro One will further leverage existing rights of way.  
28 The second is the elimination of the need for the 500 kV Bowmanville switching station  
29 for the Bowmanville x GTA project. The revised estimate for development costs  
30 continues to be material and requires a deferral account.

1 Some intervenors submitted that development costs for certain projects, where  
2 development costs are not anticipated to be incurred until 2011 and beyond, should not be  
3 considered for deferral account treatment at this time. Given the broad scope of the  
4 development activities and the potential for changes to project timelines, it is important to  
5 include all near term projects at this time. The list of projects requested in our December  
6 3, 2009 submission is consistent with our current 2011-2015 business plan timeframe.  
7 Hydro One believes that it is important to identify these projects as a group rather than  
8 piecemeal the approval for deferral account treatment. This allows for ready  
9 identification and will facilitate the subsequent prudency review process. Hydro One has  
10 already removed projects from the list where development costs are projected beyond the  
11 business plan timeframe. Further information on transmission development costs will be  
12 provided in the 2011/2012 transmission rate application.

13  
14 It is important to note that Hydro One understands that there is no guarantee of recovery  
15 of costs recorded in the deferral account. The prudence of any costs recorded in the  
16 deferral account will be determined by the Board at the time Hydro One requests  
17 disposition of the account balance. This firmly places responsibility on Hydro One to  
18 ensure that only prudent expenditures are made and that the Board guidelines for deferral  
19 accounts are fully addressed prior to recovery of these costs being approved. These  
20 guidelines require Hydro One to address causation, materiality, inability of management  
21 to control and prudence. It is important to note that there is no condition or test of  
22 economic feasibility in order for a deferral account to be established or for the Board to  
23 approve recovery of balances recorded in such an account.

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26 **All of which is respectfully submitted.**

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28 **ORIGINAL SIGNED BY**

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Ms. Susan Frank

30 Vice President and Chief Regulatory Officer