



**EB-2009-0409**

**IN THE MATTER OF** the *Ontario Energy Board Act*  
1998, S.O.1998, c.15, (Schedule B);

**AND IN THE MATTER OF** an application by Great  
Lakes Power Transmission Inc. on behalf of Great  
Lakes Power Transmission LP for a deferral account  
relating to renewable energy projects.

**BEFORE:** Cynthia Chaplin  
Vice Chair and Presiding Member

Ken Quesnelle  
Member

### **DECISION AND ORDER**

Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP ("GLPT" or the "applicant") filed an application with the Ontario Energy Board (the "Board") on November 27, 2009 requesting that a deferral account be granted for the purposes of recording expenditures relating to renewable energy projects and required transmission system planning arising from the *Green Energy and Green Economy Act, 2009*. The Board has assigned Board file number EB-2009-0409 to this deferral account application. GLPT also filed an application with the Board on November 30, 2009 under section 78 of the *Ontario Energy Board Act, 1998*, 1998 S.O. c.15, (Schedule B) seeking approval for changes to the uniform provincial transmission rates that GLPT (and other transmitters) charge for electricity transmission, to be effective January 1, 2010. The Board has assigned Board file number EB-2009-0408 to the rate application. The Board issued a Notice of Applications and Combined Hearing dated December 31, 2009 for both applications.

On January 6, 2010 the applicant filed a letter requesting that the Board deal with GLPT's deferral account application separately from GLPT's rate application. The letter further asked that the Board dispose of the deferral account application without a hearing. On January 19, 2010 the Board responded with a letter indicating that it would not be appropriate to decide the deferral account application without a hearing, but it would consider a compressed schedule for the hearing.

Six parties intervened: Canadian Niagara Power Inc, Independent Electricity System Operator, Vulnerable Energy Consumers Coalition ("VECC"), Energy Probe Research Foundation ("Energy Probe"), Schools Energy Coalition ("SEC"), and Hydro One Networks Inc. VECC, Energy Probe, and SEC also requested eligibility to seek an award of costs for participation in this proceeding; the requests were granted.

On January 29, 2010 the Board issued Procedural Order No. 1 and Interim Rate Decision, which included procedural steps for the deferral account application (EB-2009-0409) separate from the procedural steps for the transmission rate application (EB-2009-0408). In accordance with the Board's direction in regard to the deferral account proceeding, Board staff filed submissions on February 23, Energy Probe and VECC filed on February 26, and the applicant responded on March 5, 2010.

### **Deferral Account Proposal**

GLPT's proposal requests a deferral account for the purposes of recording capital expenditures as well as operation, maintenance and administration expenses related to renewable generation connection, system planning, and infrastructure investment arising from the *Green Energy and Green Economy Act, 2009*.

GLPT emphasized that the costs that will be recorded are incremental costs, which relate to the development of GLPT's Transmission Plan. As the Transmission Plan is implemented, costs will relate to establishing feasibility and development of all or parts of the Transmission Plan, in particular environmental assessment and leave to construct approvals. GLPT explained that these activities would include:

- working with OPA to determine need and to understand capability of the existing system;
- identifying transmission alternatives; preparing cost estimates for transmission alternatives;
- considering environmental impacts of transmission alternatives;
- engaging with local stakeholders and Aboriginal peoples over acceptability of transmission alternatives;
- performing fault level, load flow and system stability studies;
- conducting topographical and geographical surveys; and
- addressing corridor issues and working with other transmitters to co-ordinate plans.

GLPT indicated that it is expected that its Transmission Plan will address the scope, the estimated financial commitment and the time needed for transmission development to accommodate renewable generation resources. In addition, the Transmission Plan will address the need for natural extensions of GLPT's existing system as part of the Ontario bulk transmission system, particularly, the East-West Tie (Nipigon by Wawa) and the Sudbury Area by Algoma Area projects.

GLPT estimated that the total costs to be recorded in the proposed deferral account for these years are as follows:

<b>Year</b>	<b>Transmission Plan Development</b>	<b>East-West Tie</b>	<b>GLPT Network</b>	<b>Sudbury Area by Algoma Area</b>	<b>Total</b>
	\$M	\$M	\$M	\$M	\$M
<b>2010</b>	0.3	1.75	0.75	1.05	3.85
<b>2011</b>	-	8.50	8.00	4.00	20.50
<b>2012</b>	-	6.50	6.00	0.50	13.00
<b>Total</b>	0.3	16.75	14.75	5.55	37.35

### **Positions of the Parties**

Energy Probe submitted that a decision on the proposed account should be deferred pending further review of the costs and need for the three projects. Energy Probe suggested this review could be done in the main rates application.

Board staff and VECC accepted GLPT's proposal with reservations. Their concerns related to the possibility that the amounts might be excessive and emphasized that GLPT had accepted that it faced the risk that the expenditures might eventually be found to be imprudent.

VECC proposed the following tests in considering prudence:

- GLPT has given sufficient attention to interdependencies between various projects in its planning exercise;
- On any project, GLPT will not be incurring significant expenses, relative to the overall costs of the project, prior to OPA approval of the associated renewable generation contracts; and,
- Commitments to incurring any development and implementation costs are consistent with the anticipated timelines and required in-service dates for the projects concerned.

GLPT reiterated that it was aware that the granting of its request to establish and record amounts in the proposed deferral account is not a guarantee that the amounts recorded in the account will necessarily be recovered. GLPT also submitted that the amounts that Board Staff and VECC characterized as being possibly excessive are estimates that are subject to change as GLPT develops, refines and seeks approval for its Transmission Plan. It further submitted that given the current uncertainties related to the Green Energy Act and planning in that context, it would be unfair to impose definitive or special parameters on clearance of the account at this initial stage.

Board staff and VECC both proposed that there be separate sub-accounts for OM&A and capital expenditures. VECC proposed that the account should attract interest charges in accordance with the Board's established policy and associated interest rate. GLPT responded that given the potential amount of costs to be recorded, the effective rate more accurately reflects its actual cost of borrowing than the Board's deemed rate and is therefore the preferred approach.

## **Board Findings**

The application is approved. GLPT wishes to begin work promptly against the backdrop of potential significant demands for increased transmission capacity in the province. GLPT has applied for the deferral account to provide the

opportunity for future recovery of these incremental costs on the understanding that it will be at full risk to establish the prudence of those costs at the time of account disposition. The Board finds this proposal to be acceptable.

The Board will also order that two sub-accounts be established so that OM&A and capital expenditures can be recorded separately. The Board also expects GLPT to track its costs so as to be able to report expenditures on a project-specific basis.

Interest charges will be added to the accounts in accordance with the Board's established policy for such accounts and at the interest rate prescribed by the Board from time to time. There is no reason to depart from the Board's established policy. In its November 28, 2006 letter approving the methodology for the setting of interest rates for regulatory accounts the Board stated that the key objectives of the approach were to derive an accounting interest rate methodology that would reflect market rates and be responsive to changes in market conditions. The Board considers these objectives to be applicable to the particulars of the application before it.

GLPT is cautioned that this approval does not provide any assurance, either explicit or implicit, that the amounts recorded in the accounts will be recovered from ratepayers. No finding of prudence is being made at this time. GLPT has identified potential projects, but the level of costs and the need for the expenditures has not been sufficiently justified in this proceeding to draw any conclusion as to the prudence of these expenditures. Due to the current uncertainty around the extent of the additional capacity required, the timing for any additions, and the ultimate proponents for specific projects, the expenditures which GLPT proposes to make may be duplicative, premature or excessive. Two factors are particularly important in this regard.

First, as has been noted by Board staff and the intervenors, the OPA is still conducting its analysis of the FIT applications and is still in the process of developing its Transmission Availability Tests and Economic Connection Tests. These activities are fundamental to the overall process. The Board cautions GLPT against making significant expenditures in advance of the OPA's work in this area.

Second, Board policy regarding transmission plans (including the scope, timing, and approval of such plans) is still under development. The Board cautions that it may not allow the recovery of costs for work which duplicates the work of other transmitters. The Board is expecting to issue a staff discussion paper addressing transmission plan issues shortly.

A full test of prudence will be undertaken when GLPT applies for disposition of the accounts. The Board finds merit in highlighting the considerations identified by VECC at the outset of the operation of the deferral account and expects that those issues, among others, will be addressed at that time. GLPT will have the opportunity to demonstrate the relevance or lack thereof of the considerations identified by VECC at the time of its disposition request.

The Board will address the issue of cost claims as part of the transmission rates proceeding.

**THE BOARD ORDERS THAT:**

1. The applicant is hereby authorized to establish a Renewable Energy Deferral Account with two sub-accounts to record capital expenditures as well as operation, maintenance and administration expenses related to renewable generation connection, system planning, and infrastructure investment arising from the *Green Energy and Green Economy Act*, 2009.
3. The two sub-accounts of the Renewable Energy Deferral Account will ensure separate recording of expenditures into: (1) a Capital Expenditure sub-account; and (2) an OM&A Expenditure sub-account.

**DATED** at Toronto on March 25, 2010  
**ONTARIO ENERGY BOARD**

*Original signed by*

John Pickernell  
Assistant Board Secretary