



CANADIAN NIAGARA POWER INC.

A **FORTIS** ONTARIO
Company

June 15, 2010

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

**RE: APPLICATION FOR APPROVAL TO ESTABLISH A DEFERRAL ACCOUNT
EB-2010-0159
RESPONSES TO BOARD STAFF INTERROGATORIES**

Attached is the CNPI – Transmission response to Board Staff interrogatories related to the above noted application.

If you have any questions in connection with the above matter, please do not hesitate to contact the undersigned at (905) 994 3634.

Yours truly,

Original Signed By

Douglas Bradbury
Director, Regulatory Affairs

**CANADIAN NIAGARA POWER INC.
RESPONSES TO OEB STAFF INTERROGATORIES
APPLICATION FOR APPROVAL TO ESTABLISH A DEFERRAL ACCOUNT
BOARD FILE NUMBER: EB-2010-0159**

1.0 Preamble

Based on the prefiled evidence, CNP made a substantial investment in preliminary work (the "Preliminary Costs") associated with the leave to construct application (EB-2009-0283). Below is a summary of the Preliminary Costs that are proposed to be included in the proposed deferral account.

System Impact Studies:	\$250,000
Engineering, Environmental and Financial Studies:	\$665,000
Accumulated interest during work in progress:	\$209,000
Representation costs and internal costs related to the impact studies and the Application:	\$376,000
Total	\$1,500,000

2.0 Questions

- 2.1** When were the Preliminary Costs, for which CNPI is requesting approval to establish a deferral account, incurred?

Response:

CNPI began preliminary evaluation of the project in December 2003. Throughout 2004 and 2005, CNPI invested modestly to evaluate the project. In December 2005, CNPI began more formal work with payments being made to the Independent Electricity System Operator ("IESO"), the New York Independent System Operator ("NYISO") and Hydro One Networks Inc. for feasibility, system and customer impact studies.

Work related to the system impact studies, preliminary engineering, land ownership reviews and application preparation continued until the submission of the Application on July 16, 2009.

Further costs were incurred during Application review process to respond to the various interrogatories posed by Board staff and intervenors.

- 2.2** Did CNPI consider requesting a deferral account to record its Preliminary Costs prior to its decision to proceed with the leave to construct application (EB-2009-0283)? If not, why not?

Response:

No. On the basis of the results of the several system impact studies and the positive response from IESO staff, CNPI had a reasonable expectation that the leave to construct application would have been approved and consequently these development costs would have been capitalized with the other development and construction costs related to the project. Until capitalization, these costs were recorded by CNPI in Account 2055 Construction Work in Progress.

- 2.3** What is CNPI's rationale for requesting a deferral account in 2010 for expenses that were incurred in previous years? Would a decision that allows recovery of such costs not constitute retroactive ratemaking?

Response:

The development time frames for large scale transmission projects are normally measured in years. As such, development, engineering and construction costs are spread over that same time frame. These costs are recorded as construction work in progress (Account 2055) and will, in the normal course of events, attract interest accumulation during the development/construction of the project. Eventually, when the project is placed into service and is capitalized, these costs which have been incurred over a period of years will be added to rate base. This process does not constitute retroactive ratemaking, since the development, engineering and construction costs are recorded in Account 2055.

Similarly, for CNPI's project described in EB-2009-0283 (the "Project"), CNPI recorded its Preliminary costs in Account 2055 for inclusion in rate base upon completion of the Project. However, simply because the Project will not be completed does not mean that the recovery of CNPI's Preliminary costs would amount to retroactive ratemaking. CNPI is not certain that Account 2055 Construction Work in Progress continues to be appropriate for its Preliminary costs, since that account contemplates the completion of the work in progress. Therefore, CNPI is seeking approval to record its Preliminary costs in a new deferral account

- 2.4** Has CNPI considered recording the Preliminary Costs in one of the deferral accounts included in the Uniform System of Accounts? If it has, which account? If not, why not?

Response:

CNPI had not considered one of the deferral accounts included in the Uniform System of Accounts. CNPI was of the opinion that, given the process and Board Decision in the matter of EB-2009-0283, it would be prudent to seek the Board's leave prior to establishing a balance in such a deferral account.