



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 ENERGY PROBE RESEARCH FOUNDATION INTERROGATORIES**

Attached is the CNPI – Transmission response to Energy Probe Research Foundation 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
ENERGY PROBE RESEARCH FOUNDATION INTERROGATORIES
APPLICATION FOR APPROVAL TO ESTABLISH A DEFERRAL ACCOUNT
BOARD FILE NUMBER: EB-2010-0159**

Interrogatory # 1

Ref: RP-1999-0034, Decision January 18, 2000

The Board's criteria for establishing a deferral account are causation, materiality, management inability to control and prudence.

- a. Does CNPI agree that these criteria apply to this application for a deferral account?

Response:

No. These criteria apply to distributors who are applying to recover z-factor costs – extraordinary, unpredictable and unmanageable costs. CNPI is not seeking to establish a deferral account for a z-factor. It is seeking to establish a deferral account for costs that were recorded as work in progress, but can no longer be classified in that manner since the work will not be completed.

However, should the Board wish to apply these criteria then CNPI, has met these criteria. This is discussed further in part (b) of this interrogatory.

- b. If yes, please explain how CNPI's preliminary costs for its transmission project described in the application meet each of these criteria.

Response:

Causation – the expense must be clearly outside of the base upon which rates are derived.

Costs are currently recorded in Account 2205 Construction Work in Progress. Since the project will not be completed it is clearly outside of the base from which rates are derived.

Materiality – the costs must have a significant influence on the operation of the electricity distribution utility.

The cost of the development work requested is approximately \$1.5 million. Applying the guidelines outlined in the 2006 Electricity Distribution Rate Handbook of 0.2% of net fixed assets, this \$1.5 million exceeds CNPI's materiality threshold of approximately \$45,000.

Inability of Management Control – the cost must be attributable to some event outside of management's ability to control.

The regulatory regime related to a leave to construct order from the regulator is prescribed in regulation and code. Once CNPI had identified the transmission project, which it believed would benefit the ISEO – controlled grid, certain prescribed processes were required.

CNPI undertook the various prescribed feasibility, system and customer impact studies in Ontario involving the IESO and Hydro One Networks Inc. Only, after receiving positive results from these studies did CNPI proceed with completion of the additional studies in the New York jurisdiction involving the New York Independent System Operator and National Grid US.

These processes are required to bring a leave to construct application before the Board and therefore clearly outside of management's ability to control.

Prudence – the expense must have been prudently incurred. This means that the option selected must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

As described here previously, the costs associated with the development were required to meet the prescribed requirements to bring forward a leave to construct application. CNPI was prudent in its processes. CNPI prepared only the level of detailed engineering that was required for the impact studies. It did not complete the work in New York until it had received favourable results from the Ontario studies. Recognizing the complexity of the project, it proceeded with the leave to construct application without Class A estimates.

The leave to construct application itself extended over approximately eight months. There were several rounds of interrogatories and CNPI cooperated fully. This lengthy and thorough review of the transmission project meant additional engineering and legal costs for CNPI.

- c. If no, please explain why CNPI does not believe the criteria apply.

Response:

Please refer to the responses to (a) & (b).

Interrogatory # 2

Ref: EB-2009-0283, Evidence

Was CNPI directed by the IESO or other relevant authority to undertake preliminary work associated with the transmission project? If yes, please provide whatever documentation may apply. If no, did CNPI consider consulting with the IESO to establish the project's need before preliminary costs were incurred?

Response:

No, CNPI was not directed by the IESO or other relevant authority to undertake preliminary work.

CNPI had identified this transmission project and recognized its potential value to the IESO – controlled grid. The result of the Ontario system studies (Feasibility, System Impact Study and Customer Impact Study) identified the project as feasible. Subsequent to the Ontario studies, the New York Independent System Operator System Reliability Impact Study also indicated that the project was feasible.

In its 18-Month Outlook: An Assessment of the Reliability of the Ontario Electricity System, dated June 23, 2006, on in Section 5.1 Transmission Projects, the IESO wrote;

“Planned transmission projects, that are identified by transmitters and that have a significant impact and that have an estimated in-service date within the 18 month period under study are listed in Appendix B by transmission zone. These transmission projects do not include all transmission projects submitted to the IESO for Connection Assessments and Approval. Only those projects that are considered significant are included.”

Appendix B of the 18-Month Outlook included this transmission project. Furthermore, on July 9, 2008, senior staff at the IESO hosted a meeting with CNPI representatives to discuss the transmission project. During that meeting, IESO staff gave CNPI indication of merit in the transmission project.

On the basis of these positive system studies and discussion with IESO staff CNPI moved forward to present the transmission project in a leave to construct application.

Interrogatory # 3

Ref: EB-2009-0283, Evidence

Did CNPI consult with the Board in advance of undertaking the preliminary work associated with the transmission project to establish whether or not a deferral account would be appropriate? If yes, please provide any relevant documentation. If no, please explain why CNPI decided to proceed with preliminary work without any indication from the Board that the costs incurred would be recoverable.

Response:

CNPI did meet with Board staff to discuss the transmission project. CNPI presented the technical aspects of the project and discussed the application for leave to construct process.

CNPI did not meet with the Board or a Board panel prior to making its application.

Interrogatory # 4

Ref: EB-2009-0283, Decision March 29, 2010

The application seeks to record a total of approximately \$1.5 M in a deferral account. On page 13 of the Board's decision in EB-2009-0283 project development costs are noted as \$1.1 M. Please explain the apparent discrepancy.

Response:

The reference here to the Board's Decision in EB-2009-0283, is further referenced to CNPI's Responses to Board Staff Interrogatories dated October 28, 2009, page 21.

The particular Board Staff Interrogatory is Interrogatory 3.0 and the pertinent sections are (i) and (ii); these read;

(i) Please provide cost breakdowns for the estimates shown in Figure 5.1 in Ref (1) for the facilities proposed on the Ontario side and to the extent possible those on the New York side based on the following categories:

- engineering;
- construction;
- equipment and materials
- commissioning;
- contingencies;
- overheads (break down into Direct Overheads and Indirect overheads); and
- AFUDC.

(ii) Please indicate the accuracy of the estimates shown in Figure 5.1 in Ref (1).

CNPI responded;

(i) The requested breakdown of the capital cost estimate is provided below.

Please note that the amounts indicated in the table are CNP's estimates at this point in time and that commissioning costs are included within the construction costs as shown. While the estimated capital cost of \$30.9 million as presented in the pre-filed evidence did not include AFUDC, all of the NPV and rate impact calculations provided in the pre-filed evidence do account for AFUDC.

	Ontario	New York	Total
Engineering	1.2	1.4	2.7
Construction	1.7	7.2	8.9
Equipment & Materials	8.5	5.0	13.6
Commissioning			
Contingencies	2.3	2.3	4.6
Overhead	1.1		1.1
Sub-total	14.9	16.0	30.9
AFUDC			2.3
Total			33.2

(ii) +/-25%

There are a number of reasons for the apparent variance. The estimate given by CNPI was at specific a point in time, it did not include the additional resources required to process the Application through to the Board's Decision. These include legal and consulting costs required to respond to the interrogatories and produce the final argument.

The \$1.1 million shown in the Board's decision is net if Allowance for Funds Used During Construction ("AFUDC") which had been estimated at \$2.3 million for the transmission

project and shown in the CNPI Response above. The approximately \$1.5 million referenced in this Application includes \$209,000 in accumulated interest as the full amount is recorded in Account 2055, Construction Work in Progress, and therefore attracting interest.

In summation, the variance between the \$1.1 million referenced in this Interrogatory and the \$1.5 million referenced in the Application is attributable to the AFUDC and additional cost incurred to finalize the Application process.

It is also important to note the response to part (ii) of the Board Staff Interrogatory reference. In its response, CNPI stated that there was a plus or minus 25% accuracy level in the estimates provided in part (i).

Interrogatory # 5

Ref: Application, Cover Letter

The application states at the bottom of the application letter that CNPI would like *permission “to establish a deferral account to record its Preliminary Costs for the Board’s consideration in a future proceeding”*.

- a. Please explain what sort of future proceeding CNPI contemplates for the Board to consider the deferred costs?

Response:

CNPI would ask the Board to consider deferred costs in a future cost of service application.

- b. If the answer to the previous question is a second Leave to Construct application, what circumstances would have to change from those in effect at the time of the Board’s decision in EB-2009-0283 to result in a favourable decision for CNPI?

Response:

N/a