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**BY E-MAIL ONLY**

April 30, 2012

Ms. Kirsten Walli  
Board Secretary  
Ontario Energy Board  
2300 Yonge St, 27<sup>th</sup> Fl  
P.O. Box 2319  
Toronto, ON M4P 1E4

Dear Ms. Walli:

**Re: Application for an Accounting Order to Establish an Incumbent Transmitter  
Deferral Account - Board File No. EB-2012-0180**

Pursuant to the Notice of Application and Written Hearing and Procedural Order No. 1, dated April 18, 2012, attached is a file containing Board staff interrogatories for the above proceeding for distribution to the applicant and all parties in this proceeding.

Yours truly,

*Original Signed By*

Nabih Mikhail  
Project Advisor, Electricity Facilities & Infrastructure



## **Board Staff Interrogatories**

**Request by Hydro One Networks Inc.  
For  
An Accounting Order to Establish a Deferral Account  
Related to the East-West Tie Line Proceeding (EB-2011-0140)**

**Hydro One Networks Inc.  
EB-2012-0180  
April 30, 2012**

## Interrogatory 1 – General

### Reference:

- EB-2012-0180, Application and Evidence, March 22, 2012

### Clarification:

- (a) Please indicate whether Hydro One Networks Inc. (“HONI”) agrees that if the Board grants HONI any of the requests for the sub-accounts related to the three areas listed in the noted application:
- there is no guarantee of recovery of costs recorded in these sub-accounts; and
  - a review of the prudence of any and all of the costs and investments in those subaccounts will be conducted at the time of disposition of the account.

## Interrogatory 2 – General

### References:

- Ontario’s Long-Term Energy Plan, published November 23, 2010/ Section 4 titled “reliable transmission/modern distribution” and FIGURE 12: titled “PRIORITY TRANSMISSION PROJECTS”
- Application on May 19, 2010 by HONI for approval of its 2011, and 2012 transmission revenue requirement (EB-2010-0002)
- EB-2012-0180, Application and Evidence, March 22, 2012

At the first reference, FIGURE 12 LISTS THE East-West Tie as one of five projects identified for priority investment, and stated in part that:

*The East-West tie will be submitted to the OEB to carry out a designation process to select the most qualified and cost-effective transmission company to develop the line.*

### Question:

With the view that prior to publishing major policies affecting the electricity energy sector such as the noted Long Term Energy Plan, staff of the Ministry of Energy (“MOE”) engage various key parties in informal and formal consultations such as the Ontario Power Authority and Hydro One Networks Inc. (“HONI”), please respond to the following:

- (a) Please comment on the view that HONI was in a position to anticipate implementation of the designation process initiative during the noted transmission rate proceeding (EB-2010-0002), identified in the second reference, and therefore should have been able to update its forecast for the test year 2012 to reflect the costs identified in this application (see third reference) under:
- 3.0 Support Costs for OEB Designation Process
  - 4.0 Development Work Associated with Stations and Other Supporting Asset Expenditures,

### Interrogatory 3 – General

#### References:

- EB-2007-0673, Supplemental Report of the Board on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors , September 17, 2008, page VIII, Table 6
- EB-2012-0180, Application and Evidence, March 22, 2012

At the first reference, on page VIII Table 6 is titled "Z-Factor Amount Eligibility Criteria", where basic criteria are outlined for Z-factor costs to be considered for recovery. Board staff is of the view that these basic criteria are applicable for a request to establish a deferral account. In order for amounts to be considered for recovery in the Z-factor, the amounts must satisfy all three criteria set out in the noted Table 6. These criteria are:

Causation - Amounts should be directly related to the Z-factor event. The amount must be clearly outside of the base upon which rates were derived.

Materiality - The amounts must exceed the Board-defined materiality threshold and have a significant influence on the operation of the distributor; otherwise they should be expensed in the normal course and addressed through organizational productivity improvements.

Prudence - The amount must have been prudently incurred. This means that the distributor's decision to incur the amount must represent the most cost-effective option (not necessarily least initial cost) for ratepayers.

#### Questions/ Requests:

- (a) Please describe in detail how each of the following would satisfy the criteria "Materiality" and "Prudence" in order to qualify for inclusion in a deferral account:
- 2.0 OEB Allocated Proceeding Costs
  - 3.0 Support Costs for OEB Designation Process
  - 4.0 Development Work Associated with Stations and Other Supporting Asset Expenditures
- (b) With regard to each of the activities identified in the three categories of Question a):
- 2.0 OEB Allocated Proceeding Costs
  - 3.0 Support Costs for OEB Designation Process
  - 4.0 Development Work Associated with Stations and Other Supporting Asset Expenditures,
- please respond to the following:
1. Confirm that the expenses anticipated are specific to EB-2011-0140; that is, that they are incremental to transmission planning and projects identified through the normal course of business and capital planning.
  2. Advise on what threshold amount is considered to be material for recording purposes and on what basis this amount is determined?

3. Advise as to what date HONI anticipates that the recording of costs in the account related to these activities will cease?
  4. Advise as to what is HONI's best estimate of the total costs expected to be recorded in the proposed deferral account for EB-2011-0140, and please give an explanation for these estimates.
  5. Advise as to when HONI would expect to seek approval to dispose of the East West Tie Deferral Account ("EWTDA")
- (c) What is the regulatory precedent for the collection of each of the identified costs proposed to be included in the EWTDA?
- (d) If the costs to be recorded in the EWTDA are not known at this time, what would be the basis of the approval to record these amounts in a deferral account?
- (e) What new or additional information is available that would improve the Board's ability to make a decision to approve the recording of these costs in a deferral account?

#### **Interrogatory 4 – OEB Allocated Proceeding Costs**

##### References:

- EB-2012-0180, Application and Evidence, March 22, 2012/sec 2.2/p. 2
- Procedural Order No. 1 of EB-2011-0140, March 9, 2012

At the first reference, HONI indicates that:

- The Board determined in the second reference that the costs of proceeding EB-2011-0140, both cost awards to eligible intervenors and the Board's own costs, will be recovered through the Ontario Uniform Transmission Rates ("UTR").
- HONI did not include these costs in its 2012 approved transmission revenue requirement, nor does HONI have the ability to control or forecast what these costs will be.
- As such, HONI proposes to collect these amounts in a deferral account for disposition and recovery at a future date in accordance with Board direction.

It is also noted that in the Decision with Reasons dated December 23, 2010 for HONI's 2011/2012 transmission rates (EB-2010-0002), the Board did not approve the use of the "OEB Cost Differential Account" by HONI, since its revenue requirement already included an amount for OEB cost assessments.

Question/Clarification:

- (a) The noted costs are expected to affect all the existing licensed transmitters. The Board may on its own motion determine whether such costs are material, and if so may take the appropriate steps to reflect such costs when it updates the UTR.

Please state the reasons why HONI would still need to record these costs in a deferral account, given the fact that the Board may take steps to reflect these costs in rates when the UTR is updated.

**Interrogatory 5 – Support Costs For OEB Designation Process**

Reference:

- EB-2012-0180, Application and Evidence, March 22, 2012/section 3.1/p. 3

At the above reference, HONI stated, in part, that:

*Provided below is a brief description of the costs to be included in each of the three subaccounts.*

- (i) *Incremental Consultant Expenditures – expenditures that [HONI] may incur to engage external consultants to assist with the [East-West Tie line] designation process. For example, if the Board asks [HONI] to engage with a consultant to provide clarification on a report they had previously completed for [HONI].*

Questions/Clarifications:

- (a) Please list each of the consultants' reports produced regarding the East-West Tie line that HONI believes it could potentially be asked clarification questions about in the EB-2011-0140 proceeding and provide, for each, a brief description and the author's name.
- (b) Please comment on the fact that HONI's staff may be able to respond to clarification of aspects of a consultant's report. Where this occurs, incremental efforts by a consultant will not be needed.

**Interrogatory 6 – Support Costs For OEB Designation Process**

Reference:

- EB-2012-0180, Application and Evidence, March 22, 2012/Section 3.1/pp.3-5

At the noted reference, HONI is proposing to track labour costs in a sub-account as a part of the support costs that HONI is expecting to incur in relation to EB-2011-0140.

On page 5 of the noted reference, HONI indicated that it will track non-incremental labour dedicated to the designation process which are already approved in its current revenue requirement. HONI also indicated that it will not seek the recovery of these non-incremental labour costs and that tracking these costs will ensure that they are readily

available should the Board need the information at a later date.

Questions/Requests:

- (a) If HONI is of the view that non-incremental costs are needed for possible use at a later date, please comment on the view that HONI can keep track of such costs without recording such costs in a deferral account.
- (b) Please describe the processes HONI plans to implement to ensure that the non-incremental labour costs are kept separate from the incremental labour costs in the EWTDA. Would HONI be implementing a rigorous time-keeping of all staff working on this project to ensure accuracy in tracking the two categories of costs? If so, would such evidence be available upon request? Please confirm that HONI would not record overtime incurred by management in the EWTDA.

**Interrogatory 7 – Development Work associated with Stations & Other Supporting Asset Expenditures**

References:

- EB-2008-0272, Decision with Reasons, dated May 28, 2009/p. 60
- EB-2009-0416, Decision and Order, dated March 25, 2010
- EB-2012-0180, Application and Evidence, dated March 22, 2012/sec. 4.1/p. 6

At first reference, Board staff notes that in the proceeding EB-2008-0272, the Board authorized the creation of a deferral account for “IPSP & Other Long Term Projects Preliminary Planning Costs.” Further, at the second reference, in EB-2009-0416, the Board permitted HONI to extend coverage of above noted deferral account to cover costs associated with 14 additional projects that included the East West Tie line.

At the third reference, in the current application, HONI is proposing to record the costs of development work associated with stations and other supporting assets to permit the eventual connection of the East-West Tie line to the transmission system.

Questions/Requests:

- (a) Please identify and provide details, including costs incurred to date, for all activities that HONI has undertaken as well as details for the proposed activities described in the third reference that HONI is expecting to undertake in the future in relation to the connection of the East-West Tie line to the provincial transmission station including:
  - planning;
  - scoping;
  - preliminary engineering;
  - estimating station work;
  - environmental assessment;
  - consultation with First Nations and Métis; and
  - real estate expenditures.

- (b) Please provide cost estimates for each of the activities identified in Question (a).
- (c) Has HONI recorded any of the costs associated with any of the activities identified in (a) above in the deferral account for "IPSP & Other Long Term Projects Preliminary Planning Costs"? If so, why would the EWTDA still be needed if costs would be recorded in the deferral account for "IPSP & Other Long Term Projects Preliminary Planning Costs"?
- (d) Please distinguish between the costs HONI intends to record in the EWTDA and the deferral account for "IPSP & Other Long Term Projects Preliminary Planning Costs."

### **Interrogatory 8 – Development Work associated with Stations & Other Supporting Asset Expenditures**

#### References:

- EB-2012-0180, Application and Evidence, dated March 22, 2012/sec. 4.1/p. 6
- Transmission System Code ("TSC"), June 10, 2010/Sec. 6.3
- Transmission System Code ("TSC"), June 10, 2010/Sec. 6.8
- *Ontario Energy Board Act*, 1998, S.O. 1998, c.15, Schedule B, (the "Act") section 70 (1) and 70 (2) (c)

At the first reference, HONI stated in part that:

*The risk profile of these costs is different from that of [HONI's] normal capital construction activities as, unlike other projects, [HONI] is not managing this project or the approval process. As a result, [HONI] does not have the level of accounting assurance that the project will ultimately proceed and go in-service that it requires in order to capitalize these amounts under generally accepted accounting principles. To meet the required in-service date of the EWT Line, station development work needs to commence prior to the designated transmitter receiving its S.92 approval.*

At the second reference, the TSC prescribes "Cost Responsibility for New and Modified Connections", balancing the interests of all parties including existing transmission rate payers, where for instance in subsection 6.3.10 the TSC states that:

*6.3.10 Where a transmitter needs to construct new or modified network or connection facilities as a result of a connection application from a customer, the transmitter may require a reasonable security deposit in a form referred to in section 6.3.11 from the customer, taking into account the size of the new load or generator output, as the case may be. Where the security deposit is in the form of cash, the transmitter shall return the security deposit to the customer, together with interest at the rate referred to in section 6.3.11, less the amount of any capital contribution owed by the customer, once the customer's facilities are connected to the transmitter's*

*transmission facilities. Where the security deposit is in a form other than cash, the transmitter shall return the security deposit to the customer once the customer's facilities are connected to the transmitter's transmission facilities and any capital contribution has been paid.*

At the third reference, the TSC outlines "Obligations Between Neighbouring Ontario Transmitters".

At the fourth reference, under "Licence conditions", section 70 (1) of the Act indicates that a Licence may prescribe various conditions, and 70(2) describes examples of conditions of which subsection (c) states that:

*(c) requiring the licensee to enter into agreements with other persons on specified terms (including terms for a specified duration) approved by the Board relating to its trading or operations or for the connection to or use of any lines or plant owned or operated by the licensee or the other party to the agreement;*

Questions/Clarifications:

- (a) Please indicate whether or not HONI would include in its agreement with the designated transmitter, as required by section 6.8 of the TSC, conditions similar to the conditions outlined at the second reference where HONI can require reasonable security deposit from the designated transmitter to guard against risks that it outlined at the first reference.
- (b) Please clarify HONI's view on what the trigger is for HONI to commence its development work for the stations and other supporting assets. In other words, is it the issuance by the Board of its decision identifying the designated transmitter, the issuance by the Board of a leave to construct order, or some other event?
- (c) Please comment on the view that under the sect 70 (2) (c) of the Act, quoted above, the Board can amend HONI's transmission licence to require HONI to enter into an agreement with the eventual designated transmitter where reasonable security deposit can be arranged to guard against risks that it outlined at the first reference
- (d) Please comment on the view that it appears that HONI will have adequate time to conclude an agreement with the designated transmitter to identify the development and construction work needed, and the security deposit it would require to ensure that its transmission ratepayers are held harmless.
- (e) Please comment on the view that if one of the two approaches outlined above, is implemented, a deferral subaccount for this purpose is unnecessary.

**Interrogatory 9 – Development Work associated with Stations & Other Supporting Asset Expenditures**

Reference:

- EB-2012-0180, Application and Evidence, dated March 22, 2012/sec.4.3/p. 7

At the above reference, HONI stated in part that it will:

*“make a recommendation on the specific accounting entries that will be followed with respect to this sub-account at a future date.”*

Clarification:

- (a) Please provide the accounting entries for the noted sub-account. If they are not available, please indicate when HONI will propose the accounting entries for the noted sub-account.
- (b) Please confirm that no capital costs are being proposed for recording in the sub account at this time.
- (c) Please state if any capital costs were incurred related to 4.0 Development Work associated with Stations & Other Supporting Asset Expenditures. If so, how does HONI propose to record and recover these costs?