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VIA COURIER AND RESS FILING

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Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
P.O. Box 2319
2300 Yonge Street, 27th Floor
Toronto, Ontario M4P 1E4

Dear Ms. Walli:

**Re: Hydro One Networks Inc. Request for an Accounting Order to
Establish an Incumbent Transmitter Deferral Account (EB-2012-0180)**

Attached please find the Power Workers' Union's submission on Hydro One Networks Inc.'s request for an Accounting Order to establish an incumbent transmitter deferral account.

We hope you will find the PWU's comments useful.

Yours very truly,

PALIARE ROLAND ROSENBERG ROTHSTEIN LLP



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Doc 826070v1

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 Hydro One Networks Inc. for a deferral account related to an ongoing proceeding EB-2011-0140 to designate an electricity transmitter to undertake development work for the East-West Tie Line.

Submission of the Power Workers' Union

1. INTRODUCTION

On March 22, 2012 Hydro One Networks Inc. ("Hydro One") filed an application with the Ontario Energy Board ("Board" or "OEB") for a deferral account, "East West Tie Deferral Account" ("EWTDA" or "Deferral Account"), to record expenses related to a proceeding to designate an electricity transmitter to undertake the development of the East-West Tie Line ("EWT Line"). The EWTDA would be effective from January 3, 2012. The amounts that will be recorded in the EWTDA are not currently part of Hydro One Transmission's 2012 rates and relate to:

- (i) the cost for the proceeding apportioned to Hydro One by the Board to be recovered through Ontario Uniform Transmission Rates;
- (ii) cost incurred by the incumbent transmitter to support the Board through the designation process and to eventually facilitate the connection"; and,
- (iii) expenditures incurred relating to preliminary engineering and other station connection work required to accommodate the EWT Line.

2. PWU SUBMISSION

The PWU supports Hydro One's request for a EWTDA. There is no rate impact at this time, as customers are held harmless with regard to the establishment of the Deferral Account. The approval of the EWTDA for Hydro One does not guarantee cost recovery; it merely starts the process of capturing costs associated with Hydro One's duties in the proceeding on the designation of a transmitter for the development of the EWT Line as the incumbent transmitter. This is consistent with a condition of the OEB's approval of Ontario Power Generation's Impact for USGAAP Deferral Account in EB-2011-0432:

- **The approval of the establishment of the deferral account should not be considered to be in any manner or degree whatsoever predictive of disposition of the account¹**

Hydro One is seeking the Deferral Account based on the following factors:²

- HONI cannot forecast the amount of time and effort that will be required;**
- The cost associated with this account may be of a significant amount;**
- The anticipated costs are not included in the 2012 approved revenue requirement.**

As the incumbent transmitter Hydro One is required to provide technical information on the relevant potential connection points of any new lines consistent with the Board Policy: Framework for Transmission Project Development Plans ("Board Policy") and the Transmission System Code ("TSC").

According to the Board Policy:

The TSC primarily references requirements for the incumbent transmitter to provide connection information to customers (loads); the IESO; and neighbouring transmitters and primarily for the purposes of connection impact assessments, system operations or third party design.³

¹ EB-2011-0432, Decision and Order, Page 5

² EB-2012-0180, Exhibit I, Tab 1, Schedule 3, Page 3-4

³ EB-2010-0059 Board Policy: Framework for Transmission Project Development Plans, Page 12

The TSC sets out the following requirements:

- 6.1.13** A transmitter shall provide to a customer such technical parameters as may be required to assist the customer in ensuring that the design of the customer's facilities or of any new, modified or replacement customer facilities is consistent with the requirements applicable to the transmitter's transmission system.⁴
- 6.4.1** A transmitter shall establish in its connection procedures referred to in section 6.1.4 a customer impact assessment procedure to be used to assess the impact of proposed new or modified connections on existing customers. The transmitter shall use best efforts to coordinate its customer impact assessment procedure with the Market Rules and the IESO's market procedures as they relate to connection assessments and approvals.⁵
- 6.5.2** A transmitter shall establish in its connection procedures referred to in section 6.1.4 and implement an economic evaluation procedure that sets out how the transmitter will carry out an economic evaluation of a proposed new or modified connection of a load customer to determine what capital contribution is to be made by the load customer. The economic evaluation procedure shall:
- (a) include the methodology that will be used by the transmitter in determining the financial risk associated with a proposed connection of a load customer, which methodology shall meet the requirements of and be consistent with Appendix 4;
 - (b) provide that the economic evaluation period will be 5 years for a high risk connection, 10 years for a medium-high risk connection, 15 years for a medium-low risk connection, and 25 years for a low risk connection;
 - (c) be based on the discounted cash flow calculation set out in Appendix 5 using the forecast connection rate revenues from the connection facilities and the fully allocated capital cost, operating and maintenance cost and administrative cost of the minimum design required to meet the customer's needs. The costs shall include the transmitter's cost of transmitter-owned equipment for monitoring and testing installed on connection facilities on either side of the connection point, and the cost of carrying out verification testing on that equipment;
 - (d) establish that the cost used in the economic evaluation is limited to the advancement costs where the transmitter had planned a new or modified connection facility and moves the planned date forward to accommodate a customer;

⁴ OEB Transmission System Code, June 10, 2010

⁵ OEB Transmission System Code, June 10, 2010

(e) use a discount rate that is based on the transmitter's current deemed debt-to-equity ratio, debt and preference share costs and Board-approved rate of return on equity;

(f) require that discounting reflect the true timing of expenditures so that up-front capital expenditures are treated as occurring at the beginning of the first year of operation, and future capital expenditures, annual connection rate revenues and average operation and maintenance costs will be treated as occurring at the mid-point of the year in which they occur;

(g) take into account all relevant tax amounts, adjusted by any applicable capital cost allowance;

(h) exclude network facility costs and network rate revenues;

(i) exclude historic revenues and sunk costs;

(j) establish that the relevant connection rate revenues shall be the revenue derived from that part of the load customer's new load that exceeds the total normal supply capacity of any connection facility already serving that customer and which will be served by a new or modified connection facility;

(k) require that the customer provide its load shape in such form and detail as the transmitter may reasonably require; and

(l) provide for separate economic evaluations for transformation connection facilities and line connection facilities.⁶

As noted in Hydro One's application, the purpose of the EWTDA is to capture the costs related to the designation process and the development work required of Hydro One to enable the connection of the EWT Line to the transmission system. Due to the fact that Hydro One will not be managing the EWT Line project or the approval process it cannot forecast these costs. The designation process is new to Ontario and Hydro One has no experience to forecast the amount of time and effort that will be required to assist the Board in this proceeding.

The PWU submits that given the uncertainty that this creates it is appropriate and reasonable to record the costs in a Deferral Account for future disposition following a prudence review. In addition, the PWU agrees with Hydro One that by proactively establishing this account and tracking these costs from the onset, the costs will be

⁶ OEB Transmission System Code, June 10, 2010

readily available should the Board need information relating to the incumbent's costs at a later date.⁷ According to the application Hydro One will submit the outstanding balance of the EWTDA for approval and clearing by the Board as part of a future Hydro One Transmission rate filing.

Due to the large element of uncertainty on the information and participation requirements and the concerns already expressed in Phase 1 of the EWT Line designation proceeding with regard to the incumbent's role, it is likely that the costs that Hydro One will incur will be significant.

Hydro One has described how it will ensure that the amounts tracked in the EWTDA for which it will seek disposition will be costs that are not included in its 2012 rates. The PWU agrees with Hydro One that the EWTDA should receive the same treatment as other regulatory account balances.

The PWU submits that the use of a Deferral Account will facilitate the orderly and timely gathering of expenditures and data that will provide a clear record on the costs incurred by Hydro One related to the designation process and development work.

Hydro One's response to interrogatory I-2-1 indicates that it incurred costs prior to the Board's February 2, 2012 Notice on EB-2011-0140. The effective date for the EWTDA therefore should be Hydro One's proposed effective date of January 3, 2012.

3. CONCLUSION

The PWU supports the establishment of the requested Deferral Account as there is no rate impact at this time and it will contribute to regulatory efficiency. Having the Deferral Account allows Hydro One the opportunity to recover its prudently incurred costs which

⁷ Hydro One Networks Inc. Request for an Accounting Order to Establish an Incumbent Transmitter Deferral Account, Section 3.2

it is entitled to do. The designation process is new to Ontario and Hydro One should not be at risk for the uncertainties of its costs related to this unprecedented proceeding. The EWTDA will minimize this risk for Hydro One.

All of which is respectfully submitted.