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BY COURIER

June 4, 2012

Ms. Kirsten Walli
Secretary
Ontario Energy Board
Suite 2700, 2300 Yonge Street
Toronto, ON.
M4P 1E4

Dear Ms. Walli:

EB-2012-0180 – Hydro One Networks' Request for an Accounting Order to Establish a Deferral Account related to the East-West Tie Line Proceeding – Hydro One Networks Reply Submission

I am attaching two (2) copies of Hydro One Networks' Reply Submission.

An electronic copy of the reply submission has been filed using the Board's Regulatory Electronic Submission System (RESS) and the proof of successful submission slip is attached.

Sincerely,

ORIGINAL SIGNED BY SUSAN FRANK

Susan Frank

Attach.

c. Intervenors (electronic only)

HYDRO ONE REPLY SUBMISSION

1.0 INTRODUCTION

On March 22, 2012, Hydro One Networks Inc. ("HONI") applied to the Board for an accounting order to establish a new deferral account, "East West Tie Deferral Account ("EWTDA")", for the purpose of recording expenses relating to the East-West Tie Line ("EWT Line") designation proceeding (EB-2011-0140).

The account would be effective from January 3, 2012 and would capture costs that relate to:

- The cost for the proceeding apportioned to HONI by the Board;
- Costs incurred by the incumbent transmitter to support the Board through the designation process and to eventually facilitate the connection; and
- Expenditures incurred relating to preliminary engineering and other station connection work required to accommodate the EWT Line.

In Hydro One's view, the proposed EWTDA should be approved and is in the public interest because:

- The costs, with the exception of non-incremental labour, proposed to be recorded in the account are not part of Hydro One Transmission's Board-approved 2012 rates revenue requirement (EB-2010-0002) and are not in the recently filed 2013-2014 Transmission rates application (EB-2012-0031);
- The Board's policy (EB-2010-0059) recognized that Hydro One is expected to provide technical information on the relevant connection points of any new line;
- The designation process is new to Ontario and thus the costs are not predictable and are outside of HONI's control; and
- HONI is not seeking recovery of costs at this time and the costs recorded in the deferral account will be subject to review upon disposition.

The need for this account is to ensure that HONI is able to recover costs that are outside of its control and are incremental to its current revenue requirement. As noted in VECC's submission [pg. 2], this account is similar in nature to the Long-Term Project Development Cost Account approved by the Board in EB-2010-0002, to capture the costs incurred by the company to plan, develop and implement transmission Green Projects in support of government direction.

Submissions in respect of the EWTDA were received from: Board Staff, London Property Management Association ("LPMA"), Power Workers' Union ("PWU"), Vulnerable Energy Consumers Coalition ("VECC"), School Energy Coalition ("SEC") and Canadian Manufacturers & Exporters ("CME").

In the remainder of this Reply submission, HONI will respond to comments the parties have made.

2.0 EFFECTIVE DATE OF EWTDA

HONI has requested the account be effective from January 3, 2012. In response to LPMA Interrogatory (Exhibit I, Tab 2, Schedule 2), HONI confirmed that there are no incremental costs for which HONI is seeking recovery for the period January 3, 2012 to March 21, 2012, with the potential exception of unbilled OEB Allocated Proceeding costs. HONI anticipates that costs were incurred for the various stakeholder sessions held prior to March 21, 2012.

Parties Positions

PWU and VECC are supportive of the proposed January 3, 2012 effective date of the EWTDA.

LPMA does not support the request for a retroactive accounting order to establish the deferral account, however, LPMA accepted the unbilled OEB Allocated Proceeding

Costs as being reasonable for inclusion in the account given the "unique nature of the EWT Line process and the fact that this is the first time participants, including HONI, have been exposed to it" [LPMA submission, pg. 3]. LPMA appears to support the inclusion of non-incremental labour costs in this account from January 3, 2012.

CME does not support a retroactive effective date for the deferral account.

Board Staff does not support the January 3, 2012 effective date and submitted that if granted the effective date should be March 22, 2012. Board Staff suggests that OEB Allocated Proceeding Costs that predate the application request "can be tracked" and that "these costs relate to cost claims by intervenors and may be subject to a potential future proceeding – normally that step may occur at the conclusion of the East-West Tie Line proceeding" [Board Staff submission, pg. 11].

HONI Reply

HONI acknowledges that typically the effective date of a deferral account is upon request or subsequent to request for that account. However, at the outset of this proceeding (August 12, 2011) and until the issuance of Procedural Order No. 1 (March 2, 2012), HONI expected any incremental costs that it incurred would be recovered in a similar manner as other intervenors, for example HONI would invoice the Board or the designated transmitter for appropriate cost recovery. As such, HONI did not request this deferral account at an earlier date.

HONI applied for an effective date of January 3, 2012 to align with its fiscal year. No incremental costs have been incurred by HONI prior to March 22, 2012 and that since it has not received any invoices relating to this application from the OEB, recovery of costs prior to the proceeding date is now a moot point.

HONI asserts that the intention of tracking all costs in this deferral account was to be helpful to the Board in understanding the true cost of the EWT Line designation process. This process is new to the Board and to Ontario. HONI believes when assessing the EWT Line designation proceeding that all costs, including the designated transmitters, Board, intervenor and incumbent transmitter's costs should be considered. HONI has indicated in Exhibit I, Tab 2, Schedule 2a) that it will only seek recovery for incremental costs. With respect to non-incremental labour costs, there is no ratepayer impact of including the costs tracked prior to March 22, 2012 in the deferral account, and a January 3, 2012 effective date should be allowed.

3.0 OEB ALLOCATED PROCEEDING COSTS

HONI has requested that the amounts apportioned to them through invoice by the OEB for the hearing costs of EB-2011-0140 be tracked in the EWTDA, under sub-account "OEB Allocated Proceeding Costs" for disposition at a future date. Hydro One Transmission's 2012 revenue requirement did not include these costs nor does HONI have the ability to control or forecast what these costs will be.

Parties Positions

LPMA, PWU, CME and VECC are supportive of the inclusion of OEB Allocated Proceeding Costs in the EWTDA.

Board Staff submitted that an alternative mechanism to recover these costs is to update Uniform Transmission Rates and adjust the revenue requirement of each of the four licensed transmitters.

SEC claims that the OEB Allocated Proceeding Costs are already in HONI's revenue requirement approved by the Board in EB-2010-0002 and therefore should be denied. SEC contends that "there will be specific expenditures that were not foreseen including various regulatory proceedings which involve HONI that are not foreseen at the time of the last cost of service application" [SEC submission pg. 2] and that the approved regulatory affairs forecast takes into account this uncertainty.

HONI Reply

The Board in Procedural Order No. 1 (EB-2011-0140) implied that existing transmitters would be invoiced for this proceeding by reference to Section 12 of its *Practice Direction on Cost Awards*. If the Board chooses to alter this process (e.g. not invoicing existing transmitters) such that HONI is not liable for these costs, HONI would not be opposed to Board Staff's alternate mechanism. Board Staff's notion to directly adjust the UTRs would result in the same impact to ratepayers and to existing transmitters as does HONI's deferral account treatment. However, HONI believes that the approach of using a deferral account to track the costs is more transparent and provides a better method of cost tracking.

SEC's argument that HONI should absorb the Allocated Proceeding costs in its approved revenue requirement is not appropriate. HONI argues that the costs applicable to this hearing are not of the same nature as other unforeseen proceeding costs that HONI has forecast in its revenue requirement. The Board initiated the EWT Line designation process in August 2011 and it is still in Phase 1. This process is new to Ontario. The Board, registered transmitters, intervenors and incumbent transmitters are still working through the process to determine the best way to proceed to provide the best outcome for Ontario's ratepayers. HONI is not in a position to forecast either the time or the costs that this hearing will incur. Nine intervenors have been granted cost recovery for their participation in the proceeding; with an additional six allowed cost recovery (up to 12 hours of costs) for a meeting attended on March 23, 2012[1].

[1] EB-2011-0140 Decision on Intervention and Cost Award Eligibility March 30, 2012

Hydro One is not an applicant for this proceeding and as a result has no control over these costs or the timing of their occurrence. It is unreasonable to expect HONI to absorb these unforeseen costs.

4.0 SUPPORT COSTS FOR OEB DESIGNATION PROCESS

HONI has requested that the three types of expenditures it will incur in support of the EWT Line designation process be tracked in the EWTDA, under sub-account "Support Costs for OEB Designation Process". With the exception of non-incremental labour, Hydro One Transmission's 2012 revenue requirement did not include a forecast of these costs nor does HONI have the ability to control or forecast what these costs will be. HONI will seek recovery for the costs charged to this account at a future date at which time they will be subject to review.

Parties Positions

PWU, LPMA, and VECC are supportive of HONI's request for the EWTDA to include these costs. CME made no direct comments on this sub-account.

VECC finds HONI's request to be appropriate and requests confirmation from HONI that VECC's understanding of the structure of the account is correct. HONI confirms that VECC understanding is correct, that the non-incremental labour portion being recorded in this account will be offset by a contra-account and that HONI will not seek recovery for the non-incremental labour costs.

Board Staff agrees in principle with HONI's request for a deferral account for these costs but does not support the tracking of non-incremental labour costs as it would add undue complexity to the account.

SEC does not support the approval of this account.

HONI Reply

HONI emphasizes that with the exception of non-incremental labour costs, the costs that would be recorded in this sub-account are not part of its 2012 Transmission revenue requirement. HONI is not participating is this proceeding to become a transmitter, but is engaged in this process in a support role to assist the Board, akin to that of a consultant.

HONI continues to maintain it is unable to control or forecast these costs due to the "uniqueness of the designation process" as acknowledged by Board Staff, and since the costs are not in the current revenue requirement, HONI believes it is reasonable to track these costs in a deferral account for review and disposition at a future proceeding.

5.0 DEVELOPMENT WORK ASSOCIATED WITH STATIONS AND OTHER SUPPORTING ASSET EXPENDITURES

HONI has requested that certain development expenditures, associated with its existing station assets and other supporting assets, that will be incurred in order to permit the eventual connection of the East-West Tie Line to the transmission system be tracked in the EWTDA, under sub-account "Development Work Associated with Stations and Other Supporting Asset Expenditures" for disposition at a future date. Hydro One Transmission's 2012 revenue requirement does not include a forecast of these costs nor does HONI have the ability to forecast what these costs will be.

Parties Positions

PWU is supportive of HONI's request for the EWTDA to include these costs. VECC acknowledges that HONI should "not be out of pocket" [VECC Submission, pg. 2] for prudently incurred costs and supports the approval of this sub-account. LPMA and CME made no direct comments on this sub-account.

Board Staff is not supportive of HONI's request for "Development Work Associated with Stations and Other Supporting Asset Expenditures". Board Staff believes that its proposed alternative which would allow HONI to collect a security deposit would guard against the risks outlined in HONI's application.

Board staff proposes that either: (1) HONI be directed to include a requirement for a security deposit in its agreement with the designated transmitter; or (2) that HONI's licence be amended to require HONI to enter into an agreement with the designated transmitter that includes the requirement for a security deposit.

SEC does not support the approval of this account. SEC argues that the work that would be captured in this account will not begin until next year, and that these costs should be proposed in HONI's Transmission cost of service for 2013-2014.

HONI Reply to Board Staff

Although HONI concurs that both alternatives presented by Board Staff would provide HONI with the necessary authority to require a security deposit from the designated transmitter, HONI notes that:

- placing the responsibility to provide a security deposit on the designated transmitter is a different model than would normally be the case between neighbouring Ontario transmitters; and
- the security deposit approach, in general, raises a number of implementation issues that can cause significant delays. Some of these are noted below.
    - The suggested security deposit approach would require that an appropriate counter-party be identified from whom the deposit would be collected. However, HONI notes that development work may be required even before a transmitter is designated;
    - The amount of the security deposit that would be needed to cover the development work cannot be properly determined without HONI first performing the necessary estimates. It is not clear at what point, even

after a transmitter is designated that sufficient information about the designated transmitter's project plan would become available to allow HONI to perform the estimating work needed to determine the security deposit amount. This may result in HONI's inability to meet the designated transmitters' timeline and could impact the in-service date of the East-West Tie Line; and,

- In the event that, for reasons beyond the control of the designated transmitter, the project does not proceed, HONI's the ability to retain the security deposit to cover costs incurred could be at risk.

It is therefore Hydro One's view that the alternative of using a security deposit adds undue complexity and risk, when compared to Hydro One's proposed regulatory accounting.

HONI Reply to SEC

HONI is not in agreement that this work should be included in Hydro One Transmission's 2013-2014 rates application, as HONI does not believe these costs meet the Board's prudency standards. The Board's Policy "Framework for Transmission Project Development Plans (EB-2010-0059)" indicates that development work should commence when a transmitter is designated, that a transmitter's designation could be rescinded, two transmitters could be designated or an undesignated transmitter could bring forth a plan, or the project could be cancelled.

Due to the uncertainties relating to the scope and timing of the East-West Tie Line, the development work associated with stations and other supporting assets is not included in HONI's upcoming 2013 and 2014 transmission cost of service application.

6.0 OTHER COMMENTS

CME in their comments raised a concern relating to Accounting Orders to establish new deferral accounts, between the dates of its "annual applications for rate relief". CME is concerned that transparent "surveillance of the build-up and draw-down of all deferral account balances is an important element of monitoring the affordability of electricity prices". HONI would like to point out that there is transparency regarding regulatory accounts that should alleviate CME's concern. HONI files audited annual financial reports, which are publicly available, that provide the balances of regulatory accounts. As well, HONI reports regulatory asset balances on a quarterly basis to the OEB, through the 'Reporting & Record Keeping Requirements" (RRR). The RRR was established by the OEB.

7.0 CONCLUSION

In summary, Hydro One believes that the establishment of the East West Tie Deferral Account should be approved. Hydro One believes that there is no impact to ratepayers as a result of establishing this account. The costs that are proposed to be tracked within the account are unknown, uncontrollable and may be material. HONI is of the opinion that it is in the public interest to ensure transparency of these costs regardless of the materiality. Finally, the cost information tracked in the account will be useful to the OEB for future proceedings.

All of which is respectfully submitted for the Board's consideration.