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BY COURIER

February 4, 2015

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

Dear Ms. Walli:

**EB-2014-0311 - Hydro One Networks' Application for an Accounting Order regarding the establishment of a North West Bulk Transmission Line Deferral Account - Hydro One Networks Responses to Interrogatory Questions**

Please find attached an electronic copy of responses to interrogatory questions on the above noted application. Two (2) hard copies are being sent to the Board.

An electronic copy of the interrogatories, has been filed using the Board's Regulatory Electronic Submission System.

Sincerely,

ORIGINAL SIGNED BY JOANNE RICHARDSON

Joanne Richardson

Attach.

**Ontario Energy Board (Board Staff) INTERROGATORY #1**

**Interrogatory**

**Reference: Application, page 1**

The Board's Filing Requirements for Transmission Applications (page 25) indicate that when an application for a Deferral Account is made, the applicant must meet certain eligibility criteria: Causation, Materiality and Prudence.

While the application provides some information on these areas, please provide additional specific information under the three criteria cited.

**Response**

**Causation:**

The Board's Filing Requirement (page 25) definition of Causation is:

The forecasted expense must be clearly outside of the base upon which rates were derived

Hydro One confirms that expenditures relating to the North West Bulk Transmission Line ("NWBTL") Project were not included in Hydro One's 2015-2016 Transmission Rates Application, EB-2014-0140.

The Energy Minister's letter to Hydro One dated December 11, 2013 indicated,

a key initial step in the lines development would be the definition of the scope and timing for construction of the line, to be provided by the Ontario Power Authority (now IESO).

Hydro One did not receive the OPA's (now IESO) letter advising Hydro One to initiate development work for this project until October 1, 2014. At that time, Hydro One had already filed (September 16, 2014) its Transmission rates application. Therefore, the company's Business Plans that would have a) established the basis on which 2013 and 2014 transmission rates were derived (EB-2012-0031) or b) established the basis on which the 2015 and 2016 transmission rates were proposed and subsequently approved did not include any development costs related to this project.

Notwithstanding these facts relating to timing, Hydro One maintains it is still unable to accurately estimate the preliminary development costs that will be recorded in the deferral account.

**Materiality:**

The Board's Filing Requirement (page 25) definition of Materiality is:

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

As per the OEB's *Filing Requirements for Electricity Transmission Applications* (Section 2.3.4) issued January 2, 2014, Hydro One Transmission's materiality threshold is \$3 million. Hydro One believes the amounts recorded in the proposed deferral account will be material and are expected to exceed \$5 million (please refer to Board Staff IR response 5, filed as Exhibit I, Tab 1, Schedule 5). Hydro One will further assess materiality of the balance in the account when considering disposition of the deferral account.

**Prudence:**

The Board's Filing Requirement (page 25) definition of Prudence is:

The nature of the costs and forecasted quantum must be reasonably incurred although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant must provide evidence demonstrating as to why the option selected represents a cost-effective option (not necessarily least initial cost) for ratepayers

Hydro One is aware that the prudence of expenditures recorded in this account will be subject to future review upon disposition. Without the use of a deferral account, ratepayers would have costs embedded in their rates that Hydro One Transmission would have had to forecast without having proper understanding of the type, level and timing of such costs. This would not meet the Board's general prudency standard.

Without approval of this deferral account, Hydro One will cease predevelopment activities on the North West Bulk Transmission Line project, which will delay the in-service date that will ultimately impact ratepayers (i.e. Hydro One will not be able to timely address the electricity adequacy concerns the OPA identified in the West of Thunder Bay area).

**Ontario Energy Board (Board Staff) INTERROGATORY #2**

**Interrogatory**

**Reference: Application, page 1**

Hydro One indicates that it will be undertaking various activities with the project before these (OM&A) costs qualify to be recorded as CWIP.

Is Hydro One indicating that the costs recorded in the account will be transferred to capital upon Board approved disposition of the account, if the account is granted? Or, how will this issue be addressed?

In what way will the amounts entered into this account be treated differently if a) this project is approved, built and put in service; or b) this project does not proceed beyond development work?

**Response**

Hydro One confirms the costs recorded in this account are development costs incurred on the project prior to establishing a preferred alternative. As a result, these costs do not meet the recognition criteria under General Accepted Accounting Principles (GAAP) or Hydro One's capitalisation policies and will not qualify to be capitalised or transferred to CWIP at any stage.

These non-capitalised development costs recorded in the deferral account will not be treated any differently regardless of whether the project is approved and built, or does not proceed beyond the development phase.

Costs recorded in the proposed deferral account will be brought forward for disposition and approval in a future Hydro One transmission rate filing in the same way Hydro One's other variance and deferral account balances are.

**Ontario Energy Board (Board Staff) INTERROGATORY #3**

**Interrogatory**

**Reference: Application, page 2**

Hydro One indicates that the amounts entered into this account, if approved by the Board, would be recovered through the Ontario Uniform Transmission Rates.

Please indicate the mechanism that Hydro One proposes to facilitate the recovery of these approved amounts through the Uniform Transmission Rates.

**Response**

Hydro One will request recovery of any balance in the NWBTL deferral account as part of a future transmission rate filing. In prior proceedings, the Board has approved the recovery of Hydro One's regulatory account balances, and recovery of those balances as part of Hydro One Transmission's revenue requirement, which is used to determine the Ontario Uniform Transmission Rates that are uniformly applied to all transmission customers. Hydro One would expect the same treatment for this account.

**Ontario Energy Board (Board Staff) INTERROGATORY #4**

**Interrogatory**

**Reference: Application, page 2**

Hydro One indicates that the effective date of the requested Deferral Account would be October 1, 2014.

If this account is granted by the Board in early 2015, how does Hydro One propose accounting entries be entered from the approval date back to October 1, 2014?

**Response**

Hydro One confirms there are no costs incurred to-date that will need to be recorded in the proposed NWBTL deferral account (see Board Staff IR response 1, page 2 filed as Exhibit I, Tab 1, Schedule 1).

**Ontario Energy Board (Board Staff) INTERROGATORY #5**

**Interrogatory**

**Reference: Attachment A: Deputy Minister's Letter, December 11, 2013**

Hydro One included the December 11, 2013 letter from the Deputy Minister. In this letter, Infrastructure Ontario is mentioned as providing "...services, for example, including strategic and financial advice regarding the procurement, evaluation and contracting processes, project management or other areas of project development, construction or financing."

How will the involvement of Infrastructure Ontario affect the project and what will the financial impact be, particularly in regard to the funds that would be entered in the applied-for account?

**Response**

As noted in the letter from the Minister of Energy (Attachment A to the application), the Deputy Minister has requested Hydro One and Infrastructure Ontario ("IO") work collaboratively to support the development phase of the NWBTL project. Hydro One is currently in discussion with IO to develop the Terms and Conditions for this work.

The involvement of IO allows Hydro One to explore, along with IO, other options by which to design, build and finance this large transmission project. One possible outcome could result in IO managing and building the project on Hydro One's behalf up until the project is placed in-service, whereby, at that time, Hydro One would assume operation and maintenance of the asset.

In the development phase, IO in co-operation with Hydro One, will perform route siting, engineering conceptual design, environmental considerations and other development work. In doing so, any development costs incurred by both IO and Hydro One will be recorded and deferred into the proposed account. The types of development costs Hydro One is expecting to incur will relate to engagement with First Nations and Métis communities, environmental assessment assistance to IO and preliminary stations design, engineering and costing work.

Hydro One's current estimates indicate the development costs will exceed \$5 million.

Once the project has reached the capitalisation point any costs incurred by either IO or Hydro One will be treated like any other project and recorded in Construction Work in Progress.

**Ontario Energy Board (Board Staff) INTERROGATORY #6**

**Interrogatory**

**Reference: Attachment B: Letter from the OPA, October 1, 2014**

Hydro One included the October 1, 2014 letter from the OPA. In this letter, at page 2, Mr. Shalaby states that, “Due to the long lead time required for new transmission line projects, it is typical to initiate development work in order to better scope the transmission option, and to shorten the subsequent lead time required if the project is selected.”

Does Hydro One have any further information on the likelihood of this project being selected to move forward?

**Response**

No, at this stage Hydro One does not have any additional information from the OPA (now IESO).



**Ontario Energy Board (Board Staff) INTERROGATORY #7**

**Interrogatory**

**Reference: Application, page 4**

Hydro One indicates that it is unable to estimate the magnitude of these costs (at the time of the application).

Has Hydro One made any progress on estimating the magnitude of the costs potentially to be entered into the applied-for deferral account? If estimates are available please provide them. If estimates have not been made, please provide the reasons for lack of estimates. Please discuss any transmission line project preliminary development costs incurred in the last 5-7 years and indicate the extent to which they are indicative of the pattern, magnitude and timing of costs expected for this project.

**Response**

Please see Hydro One's Board Staff IR response 5 (Exhibit I, Tab 1, Schedule 5) with respect to a current estimate of the magnitude of costs that might be charged to this account. More detailed estimates are not available for a number of reasons such as, an agreement with Infrastructure Ontario ("IO") has not been reached, the nature of the 'greenfield' project creates uncertainty with respect to consultation requirements (environmental, First Nations and Métis, landowners), the impact on flora, fauna and wildlife in the area has not been assessed, etc.

Hydro One sees similarities between this deferral account and the one included and approved in the Hydro One Transmission rate filing EB-2009-0272, where the Board, in its May 29, 2009 Decision With Reasons, page 59, said;

Hydro One itself is not the driver behind these expenditures; as the largest transmission utility in the Province, it is responding to the policy drive by the Ontario government to meet certain objectives ..., there are clear expectations of the largest transmission utility that the planning work for these projects must continue.

In the aforementioned deferral account, preliminary development costs were tracked for the Northwest Transmission Expansion project. This project was part of the *Green Energy and Green Economy Act 2009*. Hydro One commenced preliminary engineering, environmental and route selection work and incurred \$2.6 million of development costs before the project was put on hold by the Minister of Energy. The deferral account amounts were tested for prudence and subsequently approved during Hydro One's transmission rate hearing for 2013 and 2014 rates (EB-2012-0031).

1 The development costs for the NWBTLP are expected to be greater than the amounts  
2 recorded in the deferral account for the Northwest Transmission Expansion project for  
3 two main reasons, i) the development work on that prior Northwest Transmission  
4 Expansion project ceased prior to completion, and ii) IO's involvement in the  
5 development phase will lead to more incremental costs up-front. However, IO's  
6 involvement will bring their experience and expertise with financing and procurement for  
7 public infrastructure projects. This will allow Hydro One to consider new models of  
8 building and financing the project ensuring alignment of project delivery practices with  
9 industry best-practice aimed at providing rate payers with increased overall project cost  
10 efficiency assurance.

**Ontario Energy Board (Board Staff) INTERROGATORY #8**

**Interrogatory**

**Reference: Application, page 1**

Please provide Hydro One's view of how the recovery or non-recovery of these costs will affect its financial risk profile. Is there any indication that Hydro One's risk profile will be adversely affected due to the cost of preliminary development work for the NWBT Line?

**Response**

Hydro One expects that recovery of these costs will not affect its financial risk profile. Based on a preliminary estimate of OM&A development costs in the range of \$5 million to \$10 million, non-recovery of these costs, in isolation, would not have a materially adverse effect on Hydro One's financial risk profile or financial metrics.

However, non-recovery of these costs could impact the company's business risk profile as a transparent, consistent and predictable regulated entity. The expectation of cost recovery is a fundamental strength of Hydro One. To the extent that non-recovery of these costs sets a precedent, it would likely undermine investors' confidence in the regulatory environment and increase uncertainty regarding Hydro One's ability to recover costs going forward. The rationale for such non-recovery of costs would need to be clearly communicated to investors and it would have to be understood as an extraordinary event with a remote possibility of being repeated.

1                    **Vulnerable Energy Consumers Coalition (VECC) INTERROGATORY #1**

2  
3                    **Interrogatory**

4  
5                    **Reference: Section 2**

- 6  
7                    a) Please provide the current forecasts for NWBTL project assessment costs for  
8                    2015 and 2016.  
9                    b) Please provide any actual costs incurred to date for these activities.

10  
11                   **Response**

- 12  
13                   a) Please refer to Board Staff IR response 5 (Exhibit I, Tab 1, Schedule 5).  
14                   b) Please refer to Board Staff IR response 4 (Exhibit I, Tab 1, Schedule 4).

**Vulnerable Energy Consumers Coalition (VECC) INTERROGATORY #2**

**Interrogatory**

**Reference: Section 2**

- a) The referenced letter sets out a requirement for Hydro One to file reports with the Ministry of Energy on its assessment progress. Has Hydro One submitted any such reports?
- b) If yes, please provide these reports?
- c) If the reports are deemed confidential please provide any cost estimates relating to the purpose of the proposed deferral accounts contained in any such reports.

**Response**

- a) No, Hydro One has not provided the Ministry with any progress reports at this stage as discussions have not significantly progressed with Infrastructure Ontario.
- b) N/A.
- c) N/A.

1                   **Vulnerable Energy Consumers Coalition (VECC) INTERROGATORY #3**

2  
3                   **Interrogatory**

4  
5                   **Reference: E2/T3/S1**

- 6  
7                   a) Please provide Hydro One's proposal for review and disposition of amounts in the  
8                   proposed account(s).  
9                   b) Please provide Hydro One's proposed reporting for the proposed account.

10  
11                   **Response**

- 12  
13                   a) Hydro One plans to manage the account requested in the same manner as existing  
14                   Hydro One Transmission variance and deferral accounts. That is, at the time of  
15                   submitting future transmission rate filings, Hydro One will put forward and include  
16                   any balance in the proposed deferral account for approval and disposition.  
17                   b) The account balances will be reported to the Board as part of the established quarterly  
18                   reporting process.

1                   **Vulnerable Energy Consumers Coalition (VECC) INTERROGATORY #4**

2  
3                   **Interrogatory**

4  
5                   **Reference: Hydro One, October 3, 2014**

- 6  
7                   a) Hydro One has stated that no OM&A costs are not included in its Transmission's  
8                   current 2014 rates (EB-2012-0031), nor were they included in the 2015-2016  
9                   proposed transmission rates revenue requirement (EB-2014-0140). However, the  
10                  Ministry direction to Hydro One to begin assessment work was given in  
11                  December of 2013. Is it Hydro One's evidence that no such work was done in  
12                  any part of 2013 or 2014?  
13                  b) If work was done, please explain and show what amounts were explicitly  
14                  excluded in Hydro One's recent transmission rates case (EB-2014-0140) for these  
15                  activities.

16  
17                  **Response**

- 18  
19                  a) Confirmed. Please refer to Board Staff IR response 4 (Exhibit I, Tab 1, Schedule 4).  
20                  b) N/A.

1                    **Canadian Manufacturers and Exporters (CME) INTERROGATORY #1**

2  
3                    **Interrogatory**

4  
5                    Why was the need for the North West Bulk Transmission Line Deferral Account  
6                    ("NWBTLDA") not addressed in Hydro One's 2015-2016 Transmission Rates case?

7  
8                    **Response**

9  
10                   Please refer to Board Staff IR response 1 (Exhibit I, Tab 1, Schedule 1).



1                    **Canadian Manufacturers and Exporters (CME) INTERROGATORY #2**

2  
3                    **Interrogatory**

4  
5                    Please confirm that the plan to record "incremental" costs due to the NWBTL project in  
6                    the Deferral Account means that there will be no allocation to that account of the value of  
7                    human or other resources covered by the 2015-2016 Transmission Revenue Requirement.  
8                    If this cannot be confirmed, please provide full details on what Hydro One considers as  
9                    "incremental" costs.

10  
11                   **Response**

12  
13                   Confirmed.

1                   **Energy Probe Research Foundation (Energy Probe) INTERROGATORY #1**

2  
3                   **Interrogatory**

4  
5                   **Reference: Letter Dated December 11, 2013 from Deputy Minister of Energy &**  
6                   **Letter Dated October 1, 2014 from Ontario Power Authority**

- 7  
8                   a) Are there Cost or Resource implications for 2015-16? Please provide details.  
9                   b) Was Hydro One aware of the NWBTLP and potential cost Implications at the time of  
10                  the Settlement Conference and Application for?  
11                  c) If so, was the matter disclosed/addressed with Stakeholders.  
12                  d) If so, please point to all references to the Project.

13  
14                  **Response**

- 15  
16                  a) Please refer to Board Staff IR response 5 (Exhibit I, Tab 1, Schedule 5).  
17                  b) No, while the NWBTLP was identified in the *Long Term Energy Plan* the condition  
18                  of direction and need from the OPA (now IESO) had not been received by Hydro One  
19                  prior to filing its Transmission Settlement Agreement on September 16, 2014.  
20                  c) No.  
21                  d) N/A.

**Energy Probe Research Foundation (Energy Probe) INTERROGATORY #2**

**Interrogatory**

**Reference: Application and Letter Dated October 1, 2014 from Ontario Power Authority**

- a) Hydro One requests that the effective date of the requested Deferral Account to be October 1, 2014. Are there any 2014 costs?
- b) Does Hydro One Tx have preliminary estimates of costs? Please provide initial estimates of amounts that may be recorded in the proposed Deferral Account, for each of 2014, 2015 and 2016, including estimates of both internal and external resources.
- c) What is Hydro One's Transmission Materiality Threshold?
- d) Will the Account balances be reviewed and disposed of in the next rate case?
- e) Will the recorded costs be expensed or capitalized? Clarify for both Project proceeding and not proceeding.

**Response**

- a) Please refer to Board Staff IR response 4 (Exhibit I, Tab 1, Schedule 4).
- b) Please refer to Board Staff IR responses 4 and 5 (Exhibit I, Tab 1, Schedule 4 and 5).
- c) Please refer to Board Staff IR response 1 (Exhibit I, Tab 1, Schedule 1).
- d) Please refer to VECC IR response 3a) (Exhibit I, Tab 2, Schedule 3).
- e) Please refer to Board Staff IR response 2 (Exhibit I, Tab 1, Schedule 2).

**School Energy Coalition (SEC) INTERROGATORY #1**

**Interrogatory**

When did Hydro One for the first time become aware that it would likely need to undertake development activities for the North West Bulk Transmission Line between 2014-2016? Please provide details and supporting documentation.

**Response**

Hydro One first became aware that the project was assigned to Hydro One and would likely need to undertake development activities for the North West Bulk Transmission Line project when the Minister of Energy released the '*Long Term Energy Plan*' in December 2013. In that report it indicated;

As part of the longer-term set of solutions for the area, the government expects Hydro One to begin planning for a new Northwest Bulk transmission line, west of Thunder Bay, with the project scope to be recommended by the OPA. (Page 51)

However, Hydro One did not receive confirmation of the project's need and scope from the OPA (now IESO) until October 1, 2014.

**School Energy Coalition (SEC) INTERROGATORY #2**

**Interrogatory**

Please explain why any development cost, or a deferral account to record any development costs, was not included in Hydro One's 2015-16 Transmission 'Proposed Application' (Section III, Hydro One Pre-filed Evidence and Application in EB-2014-0140).

**Response**

Please refer to Hydro One's response to Board Staff IR question 1 (Exhibit I, Tab 1, Schedule 1).

**School Energy Coalition (SEC) INTERROGATORY #3**

**Interrogatory**

Did Hydro One provide notice to signatories of the EB-2014-0140 Settlement Agreement before that application was filed with the Board, that it would be bring this (or a similar) application before this Board for a Deferral Account to record development work conducted in 2015 and/or 2016 relating to the North West Bulk Transmission Line? If so, please provide details and supporting documentation.

**Response**

No. Please refer to Energy Probe IR response 1 (Exhibit I, Tab 4, Schedule 1).

**School Energy Coalition (SEC) INTERROGATORY #4**

**Interrogatory**

Is Hydro One seeking to record any development costs in the proposed Deferral Account between the date of the filing of the application (October 3, 2014) and the date of any Board final approval of the application?

**Response**

No, Hydro One is not proposing to record any development costs in the North West Bulk Transmission Line Deferral Account until after Board approval is given.

**School Energy Coalition (SEC) INTERROGATORY #5**

**Interrogatory**

Please provide an estimate of the amount that may be recorded in the proposed Deferral Account, for each of 2014, 2015 and 2016.

**Response**

Please refer to Board Staff IR responses 4 and 5 (Exhibit I, Tab 1, Schedule 4 and 5).



**School Energy Coalition (SEC) INTERROGATORY #6**

**Interrogatory**

Please provide copies of all references to the North West Bulk Transmission Line in the Hydro One's EB-2012-0031 and EB-2014-0140 application.

**Response**

There are no references to the North West Bulk Transmission Line in either of Hydro One's EB-2012-0031 or EB-2014-0140 rate filing applications.

**School Energy Coalition (SEC) INTERROGATORY #7**

**Interrogatory**

Please explain how the proposed deferral account meets each of the following criteria:

- a) Causation;
- b) Materiality; and
- c) Reasonableness.

**Response**

Please refer to Board Staff IR response 1 (Exhibit I, Tab 1, Schedule 1).