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File 20741

VIA RESS FILING AND COURIER

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

Dear Ms. Walli:

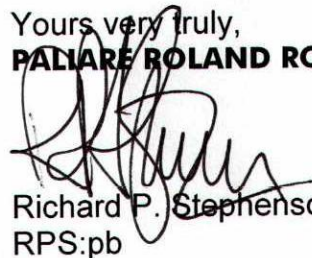
**Re: Hydro One Networks Inc. Request for an Accounting Order to
Establish a Deferral Account for Preliminary Development Work
Related to the North West Bulk Transmission Line Project (EB-2014-
0311)**

Attached please find the Power Workers' Union's submission on Hydro One Networks Inc.'s request for an Accounting Order to establish a deferral account for preliminary development work related to the North West Bulk Transmission Line Project (EB-2014-0311).

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

Yours very truly,

PALIARE ROLAND ROSENBERG ROTHSTEIN LLP


Richard P. Stephenson
RPS:pb

Encl.

c: John Sprackett
Kim McKenzie

Doc 1356463 v1

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 an accounting order to establish a deferral
account.

Submission of the Power Workers' Union

1. INTRODUCTION

On October 3, 2014 Hydro One Networks Inc. ("Hydro One") filed an application with the Ontario Energy Board ("Board" or "OEB") to establish a new deferral account, "North West Bulk Transmission Line Deferral Account" ("NWBTD" or "Deferral Account"), to record expenses related to the North West Bulk Transmission Line Project ("NWBTL Project"). The NWBTD would be effective from October 1, 2014. The amounts that will be recorded in the NWBTD are not currently part of Hydro One Transmission's 2014 rates, nor were they included in the 2015-2016 proposed transmission rates revenue requirement application (EB-2014-0140). The amounts that will be recorded in the NWBTD relate to:

preliminary design/engineering, cost estimation, public engagement/consultation, routing and siting, and Environmental Assessment preparation work associated with this project before the costs qualify to be recorded in Construction Work In Progress ("CWIP").¹

According to the application Hydro One would manage the Deferral Account in the same manner as existing Hydro One Transmission variance and deferral accounts. Hydro One will report the account balances to the Board as part of the established

¹ EB-2014-0311, Hydro One Application, October 3, 2014, Page 1

quarterly reporting process allowing the Board to monitor the balance in the Deferral Account.²

2. PWU SUBMISSION

The PWU supports Hydro One's request for a NWBTDA. The 2013 Long Term Energy Plan identified the NWBTL Project as a priority project to augment the capacity and maintain the reliability of electricity supply to the area of northwestern Ontario located west of Thunder Bay to support forecast electricity demand growth.

Hydro One is seeking the Deferral Account based on the following factors:³

- i. The anticipated costs are not included in the 2014 approved revenue requirement or the 2015-2016 approved revenue requirement.
- ii. Hydro One is unable to accurately forecast the costs that will be incurred at this time;
- iii. Various issues that Hydro One has to deal with (i.e. extensive and lengthy consultations, complex environmental issues) in the preliminary engineering and planning work can be considered high risk;
- iv. The cost associated with this account may be of a significant amount; and
- v. The preliminary development costs will be incurred prior to the OPA's selection of a preferred alternative.

On December 11, 2013, the Ministry of Energy ("Ministry") directed Hydro One to begin the development phase of the NWBTL Project and in January 2014 the OEB included this request as a condition to Hydro One's Transmission licence (EB-2013-0437):

² EB-2014-0311, Exhibit I, Tab 2, Schedule 3, VECC IR #3 (b)

³ EB-2014-0311, Hydro One Application, October 3, 2014

The Licensee shall develop and seek approvals for the expansion or reinforcement of a portion or portions of the Licensee's electricity transmission network in the area west of Thunder Bay (the "Northwest Bulk Transmission Line Project"). The scope and timing of the Northwest Bulk Transmission Line Project shall be in accordance with the recommendations of the Ontario Power Authority.

Consistent with the above, the Ontario Power Authority ("OPA") issued a letter to Hydro One on October 1, 2014 identifying two areas of adequacy concerns with the existing West of Thunder Bay transmission system and advised 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.

As stated above the direction from the Ministry instructed Hydro One that the OPA would recommend the project scope and timing. The October 1, 2014 letter from the OPA provided Hydro One with the necessary project scope and timing and verified the continued need for the NWBTL Project. The evidence indicates that Hydro One couldn't have included this project under its 2015-2016 Transmission Rates application (EB-2014-0140) because the letter from the OPA was delivered to Hydro One a month after Hydro One submitted its 2015-2016 Transmission Rates application (EB-2014-0140) to the Board. The letter from the OPA indicates that the NWBTL Project may go forward and provides Hydro One with the necessary information to move ahead with the preliminary development work.

As noted in Hydro One's application, the purpose of the NWBTDA is to capture the costs related to the preliminary engineering and planning work required of Hydro One related to the NWBTL Project. Hydro One did not initiate the NWBTL Project and any costs incurred are the result of direction from the Ministry, therefore Hydro One should not be at risk for the uncertainties of its costs related to this project.

This is not the first time that Hydro One has been directed to undertake preliminary work for a project (Northwest Transmission Expansion project) and in the Decision with

Reasons (EB-2008-0272), dated May 28, 2009 the Board approved a similar deferral account for Hydro One's 2009 – 2010 transmission revenue requirement.⁴

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 NWBTDA for Hydro One does not guarantee cost recovery; it merely starts the process of capturing costs associated with Hydro One's preliminary engineering and planning work associated with the NWBTL Project. If the request for the NWBTDA is approved, the prudence of the expenditures recorded in the deferral account will be submitted for approval to the Board as part of a future Transmission rate filing. The Board and stakeholders will then have the opportunity to scrutinize the costs in the deferral account when more concrete evidence and information is available.

According to the application, Hydro One is unable to accurately estimate the preliminary development costs due to the need for extensive and lengthy consultation with various groups including Infrastructure Ontario ("IO") and complex environmental issues due to the location and Greenfield nature of the proposed lines (i.e. impact on flora, fauna, wildlife has not been assessed,⁵ etc.). Hydro One has yet to reach an agreement with IO.⁶

In the application and in response to interrogatories, Hydro One indicates that the preliminary development costs will be material and the preliminary estimates are in the \$5 million to \$10 million range.⁷ Given Hydro One's experience that it incurred development costs of \$2.6 million for the Northwest Transmission Expansion project that was halted before completion, the PWU submits that Hydro One's current estimates are reasonable and above Hydro One's \$3 million materiality threshold.⁸

⁴ EB-2008-0272. OEB Decision with Reasons, May 28, 2009. Pages 56- 60

⁵ EB-2014-0311, Exhibit I, Tab 1, Schedule 7, Board Staff IR #7

⁶ EB-2014-0311, Exhibit I, Tab 1, Schedule 7, Board Staff IR #7

⁷ EB-2014-0311, Exhibit I, Tab 1, Schedule 8, Board Staff IR #8

⁸ EB-2014-0311, Exhibit I, Tab 1, Schedule 1, Board Staff IR #1

Although the OPA has provided Hydro One with the project scope and timing, the OPA is still assessing both transmission and generation options for augmenting the supply capability in the West of Thunder Bay area. Hydro One has to initiate development work before the preferred alternative is selected which creates risk of recovery of the preliminary development costs for Hydro One.

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.

3. CONCLUSION

The NWBTL Project is a result of a direction from the government of Ontario and therefore Hydro One has to commence preliminary development work on the project. Given that there are certain uncertainties with respect to cost and the future of the project, it is reasonable that Hydro One record the associated costs in a deferral account for a review and disposition in its next rates application. The PWU therefore supports the establishment of the requested Deferral Account.

All of which is respectfully submitted.