CANADIAN NIAGARA POWER INC.
A FORTIS ONTARIO Company

February 11, 2015

Ms. Kirsten Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street, 27th Floor
Toronto, ON M4P 1E4

Dear Ms. Walli:

RE: 2015 & 2016 TRANSMISSION REVENUE REQUIREMENT APPLICATION FOR CANADIAN NIAGARA POWER INC., ("CNPI") EB-2014-0204

Please find accompanying this letter two (2) copies of CNPI's responses to the interrogatories submitted to the Board by Board staff.

A PDF version of these responses will, coincidently with this written submission, be filed via the Board's Regulatory Electronic Submission System.

If you have any questions in connection with the above matter, please do not hesitate to contact the undersigned at (905) 994-3634.

Yours truly,

Original Signed by:

Douglas Bradbury P.Eng,
Director Regulatory Affairs

Enclosure

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(OEB)

1-Staff-1

Ref: E1-T1-S11 and E1-T4-S1 2013 Audited Financial Statements and E2-T1-S4

In the application, CNPI indicated that it is proposing to change the estimated useful lives of its assets consistent with the guidelines in the Kinectrics Report and that no changes are required for its accounting policy for overhead costs associated with capital work. From Note 1B of the 2013 consolidated (transmission and distribution) audited financial statements, it appears that the change in useful lives and the assessment for no changes in capitalization policy was effective January 1, 2013.

a) Please confirm that January 1, 2013 was the effective date for the change in useful lives for regulatory purposes. If not January 1, 2013, please indicate the date of change.
b) If the effective date for the change in useful lives was not January 1, 2013, please explain why CNPI Tx did not change its useful lives consistent with CNPI's consolidated audited financial statements or the Board's letter, dated July 17, 2012 on regulatory accounting policy direction regarding changes to depreciation expense and capitalization policies in 2012 and 2013
c) If the effective date for the change in useful lives was January 1, 2013, the ending net book values of PP&E using the old useful lives would be different than that using revised useful lives. Please explain why the opening net book values in 2015 (i.e. the ending net book values of 2014) shown in the Fixed Asset continuity schedule without changes to useful lives in E1-T1-S11 Appendix 2-BA1 are the same as that shown in the Fixed Asset continuity schedule with the changes to useful lives in E2-T1-S4 p.6. Please revise the Fixed Asset continuity schedules as necessary.
d) From Note 15 of the 2013 consolidated audited financial statements, the 2013 net book value of capital assets for CNPI Tx is $13,972,000. From the Fixed Asset continuity schedule in E2-T1-S4 p.4, the 2013 ending net book value of PP&E is $18,726,156.
    i. If the effective date for the change in useful lives was not January 1, 2013, please explain why the PP&E amount in the audited financial statement is not used as the basis of the PP&E amount in rate base in the current application. Please explain how the PP&E amount in the rate application is determined.

ii. If the effective date for the change in useful lives was January 1, 2013, please explain and reconcile the difference in 2013 ending net book value between the audited financial statements and the current rate application.

RESPONSE:

a) The effective date for the change in useful lives for regulatory purposes is January 1, 2015.

b) The audited financial statements referred to CNPI distribution changing its useful lives after approval by the OEB in its cost of service application filed in 2012. The Board's letter, dated July 17, 2012 on regulatory accounting policy direction regarding changes to depreciation expense and capitalization policies in 2012 and 2013 was sent to electricity distributors not transmitters.

c) N/A

d) i. The amounts are different because the Audited Financial Statements amount does not include the intangible assets in Note 4, CIAC and the asset allocations. The reconciliation is below.

	$ (000's)
per AFS	13,972
add net allocations	582
add net CIAC(OEB acct 1995)	(18)
add misc intangibles-plant(OEB acct 1610)	16
add net intangibles-land rights(OEB acct 1706)	4,174
per E2-T1-S4 pg 4	18,726

iii. N/A

(OEB)

1-Staff-2

Ref: E1-T1-S11 and E2-T1-S4 p.6-7

CNPI Tx showed a comparison of the change in useful lives in E1-T1-S11 Appendix 2-EE. Appendix 2-EE is for Account 1576 (accounting changes under GAAP).

a) Is CNPI Tx proposing Account 1576 for disposition?
b) If CNPI Tx is proposing Account 1576 for disposition:
    i. Why is CNPI Tx calculating the impact of change in useful lives for 2015 and 2016 and not as at 2014?
    ii. Why is CWIP included in the calculation when CWIP is not a part of rate base?
    iii. Please complete the rest of the Appendix, including the return on the account and disposition period.
c) If CNPI Tx is not proposing Account 1576 for disposition,
    i. Please explain why not when other transmitters such as Great Lakes Power Transmission LP have recorded and disposed of amounts in a similar account, Account 1575 (EB-2014-0238 proceeding).
    ii. Please quantify what the amount recorded in Account 1576 would be ending December 31, 2014, including the return.

RESPONSE:

a) No, CNPI Tx is not proposing Account 1576 for disposition.

b) N/A

c) i. CNPI Tx has transitioned to ASPE and is not implementing IFRS. CNPI Tx is changing its capitalization policy and depreciation rates effective Jan 1, 2015. Therefore, there is no transition year with respect to the “change”.

ii.N/A

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(OEB)

1-Staff-3

Ref: E1-T2-S9

CNPI Tx indicated that it is not aware of any events that would have resulted in the accumulation of costs in any deferral and variance regulatory accounts. Has CNPI Tx considered whether Account 1592 PILs and Tax Variances for 2006 and Subsequent Years, Sub-account HST / OVAT Input Tax Credits (ITCs) would be applicable?

a) Please explain why the account is or is not applicable.
b) Please quantify the amount that would be recorded in the sub-account, if applicable.

RESPONSE:

a) CNPI Tx is not aware of any events that would have resulted in the accumulation of costs in any deferral and variance regulatory accounts. No direction has been provided to transmitters with respect to Account 1592 PILs and Tax Variances and Sub-account HST / OVAT Input Tax Credits.

b) Not applicable

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(OEB)

1-Staff-4

Ref: E1-T4-S2

CNPI Tx stated that it has not filed regulatory financial statements and therefore, there are no reconciliations to the audited financial statements.

a) Please confirm that the audited financial statements are the basis for the regulatory financial information presented in CNPI Tx's current application.
b) If the response to part a) above is no, explain how the regulatory financial information presented in CNPI Tx's current application is derived.
c) If the amounts used for regulatory purposes in this rate application are different than amounts from the audited financial statements, please provide a reconciliation between the two. Please explain what the reconciling items are.

RESPONSE:

a) The audited financial statements are the basis for the regulatory financial information presented in CNPI Tx's current application.

b) N/A. Please refer to the response to (a) above.

c) The amounts used for regulatory purposes are the same as the amounts in the audited financial statements but not necessarily the same as the segmented information in the notes to the audited financial statements because of differences in the grouping of items. An example is in the response to 1-Staff-1d shown below.

Utility Capital Assets	$ (000's)
per AFS	13,972
add net allocations	582
add net CIAC(OEB acct 1995)	(18)
add misc intangibles-plant(OEB acct 1610)	16
add net intangibles-land rights(OEB acct 1706)	4,174
per E2-T1-S4 pg 4	18,726

Due to the fact CNPI is one company the allocations between CNPI distribution and CNPI Tx are “eliminated on consolidation” in the audited financial statements.

(OEB)

2-Staff-5

Ref: E2-T1-S1 p.1

CNPI Tx states that it opted not to include an allowance for working capital in its derivation of rate base and that it did not undertake a working capital study for the purpose of calculating the 2015-2016 Test Years' working capital. CNPI Tx notes that it receives all of its revenue directly from the IESO following settlement of the electricity market; approximately sixteen days following period end. In table 2.1.1.1 CNPI Tx provided identified the Working Capital Allowance component of rate base for the noted years.

Table 2.1.1.1 Rate Base Overview

Description	2001 Approved	2011 Actual	2012 Actual	2013 Actual	2014 Bridge	2015 Test	2016 Test
Gross Fixed Assets	28,446,047	29,416,952	30,130,284	33,225,780	36,422,933	42,362,700	43,203,300
Accumulated Depreciation	(6,331,667)	(14,585,456)	(15,378,206)	(16,079,456)	(17,382,887)	(18,203,880)	(19,089,089)
Net Book Value	22,114,380	14,831,496	14,752,078	17,146,324	19,040,046	24,158,820	24,114,211
Average Net book Value	22,114,380	15,040,788	14,791,787	15,949,201	18,093,185	21,599,433	24,136,516
Working Capital Requirement	1,100,790	1,592,177	1,724,679	1,545,662	1,805,115	-	-
Working Capital Allowance	165,119	238,827	258,702	231,849	270,767	-	-
Rate Base	22,279,498	15,279,614	15,050,489	16,181,050	18,363,953	21,599,433	24,136,516

a) Please describe the methodology CNPI Tx used to develop the Working Capital Requirement and Working Capital Allowance amounts shown in table 2.1.1.1
b) On a best efforts basis please provide a high level, working capital/allowance calculation consistent with the methodology described in a)
c) Why did CNPI Tx decide to forgo the revenue requirement amount related to b)?

RESPONSE:

a) The Working Capital Requirement equals the sum of allowable operating expenses and the Working Capital Allowance equals the Working Capital Requirement times 15%. This is the same methodology used in the last Board approved application.

b) Based on the methodology in a) the 2015 Test Year would be 15% times $2,012,716 equaling $301,907 and the 2016 test Year would be 15% times $2,057,066 equaling $308,560.

c) As discussed in Exhibit 2 Tab 1 Schedule 1 of the Application, CNPI Tx did not undertake a working capital study in preparation of this Application. In addition, CNPI Tx noted that all of its transmission business' revenue is allocated from the transmission pool; CNPI Tx does not have direct connect customers on its transmission system.

Since the IESO distributes the transmission pool funds normally within seventeen days of the close of the period there is minimal delay associated with cash flows.

For these reasons, CNPI Tx believed that the attributable working capital allowance may be relatively small and therefore CNPI Tx opted, in this instance, to exclude it from the revenue requirement determination.

The Working Capital Requirement and Working Capital Allowance shown in Table 2.1.1.1 is consistent with the methodology for determining Working Capital in CNPI Tx's previous Revenue Requirement Application, RP-2001-0034 / EB-2001-0377, in 2001, which was 15% of allowable costs. With the more recent evolution of revenue requirement applications, both transmission and distribution, it is not likely that an arbitrary determination of Working Capital Allowance would satisfy a regulatory review.

(OEB)

2-Staff-6

Ref: E2-T1-S1and E11-T1-S1

The terms “IPL Rebuild Project” and “IPL Removal and Replacement Project” are used in the evidence (for purposes of these IRs, IPL Rebuild Project will be used unless the reference is a direct quote).

a) Please confirm that these are short form terms for Alternative #4, “Removal of the IPL(International Power Line), and Replacement with a New Facility” and that they are interchangeable? If not, please describe how they are differ and edit the IR response where necessary?

RESPONSE:

a) Yes, the terms are interchangeable.

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(OEB)

2-Staff-7

Ref: E2-T1-S1

Please complete the table below.

Gross Fixed Assets

	Amount	Year on Year Change		Annual Depreciation
		$	%	
2001 Approved	$ 28,446,047	na		
2001 Actual	$ 29,416,952	$ 970,905	3.4%	
2002 Actual				
2003 Actual				
2004 Actual				
2005 Actual				
2006 Actual				
2007 Actual				
2008 Actual				
2008 Actual				
2009 Actual				
2010 Actual				
2011 Actual				
2012 Actual	$ 30,130,284			
2013 Actual	$ 33,225,780	-$3,095,496		
2014 Bridge	$ 36,422,933			
2015 Test	$ 42,362,700			
2016 Test	$ 43,203,300			

RESPONSE:

Below is the completed table.

**Note- In 2005 the methodology for the allocation of shared services and assets was changed to the current practice as described in Exhibit 4.

GROSS FIXED ASSETS				
	Amount	Year on Year $	Change %	Annual Depreciation
2001 Approved	$ 28,446,047			$ 912,335
2001 Actual	$ 28,319,720	$ (126,327)	-0.4%	$ 937,565
2002 Actual	$ 28,817,407	$ 497,687	1.8%	$ 996,899
2003 Actual	$ 29,395,002	$ 577,595	2.0%	$ 993,315
2004 Actual	$ 30,316,969	$ 921,967	3.1%	$ 959,234
2005 Actual**	$ 27,735,727	$ (2,581,242)	-8.5%	$ 1,193,099
2006 Actual	$ 27,949,066	$ 213,339	0.8%	$ 842,930
2007 Actual	$ 28,100,593	$ 151,527	0.5%	$ 826,921
2008 Actual	$ 28,211,616	$ 111,023	0.4%	$ 824,719
2009 Actual	$ 28,346,473	$ 134,857	0.5%	$ 772,547
2010 Actual	$ 28,580,026	$ 233,553	0.8%	$ 835,428
2011 Actual	$ 29,416,952	$ 836,926	2.9%	$ 1,255,510
2012 Actual	$ 30,130,284	$ 713,332	2.4%	$ 809,931
2013 Actual	$ 33,225,780	$ 3,095,496	10.3%	$ 888,985
2014 Bridge	$ 36,422,933	$ 3,197,153	9.6%	$ 1,303,431
2015 Test	$ 42,362,700	$ 5,939,767	16.3%	$ 820,993
2016 Test	$ 43,203,300	$ 840,600	2.0%	$ 885,209

**Note- In 2005 the methodology for the allocation of shared services and assets was changed to the current practice as described in Exhibit 4.

(OEB)

2-Staff-8

Ref:E2-T2-S1 p.5

CNPI Tx is proposing to spend $460,000 in capital expenditures in 2016 for the relocation of portions of line 2 near Bowen Road. CNPI Tx notes that Regional and stakeholder consultations have identified the need for this expenditure to make room for a new proposed highway and infrastructure improvements triggered by the development of the Canadian Motor Speedway in Fort Erie. This capital project is expected to commence in May of 2015 and completed by summer 2016 to accommodate the customer's schedule.

a) What is the nature of the infrastructure improvements triggered by the development of the Canadian Motor Speedway in Fort Erie?
b) What is the status of the proposed new highway? Have the municipality and/or province let the construction contract yet?
c) What portion of the $460,000 is directly related to the Canadian Motor Speedway development?
d) Is CNPI Tx's sole customer, CNPI Dx, affected by the project?
e) Is a capital contribution expected from the Canadian Motor Speedway? If not, why not? If yes, is the $460,000 net of the capital contribution?
f) If the $460,000 is the project cost net of the capital contribution, what aspect of the project justifies recovery of costs from any electricity customers?

RESPONSE:

a) This is a plant relocation project only. CNPI Tx's transmission plant crossing the Queen Elizabeth Way ("QEW"), a 400 series highway in Ontario, and the Bowen Road interchange will have to be relocated to accommodate highway modifications required by the Ministry of Transportation in Ontario ("MTO").

b) To CNPI Tx's knowledge the province has not let the construction contract yet.

c) All of the $460,000 is directly related to the work required by the MTO to modify the QEW and Bowen Road interchange.

d) Based on the indications to date, CNPI Dx will be required to provide electricity distribution service to the project.

e) No, there is no capital contribution from the Canadian Motor Speedway. The $460,000 is the estimated capital cost to accommodate the requirements of the MTO.

f) The request to relocate the transmission line along Bowen Road Bridge will come from the Ministry of Transportation ("MTO"). Under the Public Service Works on Highways Act section 2.2, CNPI Tx will recover 50% labour and labour saving devices from MTO. Reference to the Canadian Motor Speedway ("CMS") in this application is attributable to the timing of the project. The CMS plans to be in operation in 2017. Under this schedule, CNPI Tx has to complete the work in 2016 in order for the highway expansion project be completed in 2017.

Section 2.2
"The road authority and the operating corporation may agree upon the apportionment of the cost of labour employed in such taking up, removal or change, but, subject to section 3, in default of agreement such cost shall be apportioned equally between the road authority and the operating corporation, and all other costs of the work shall be borne by the operating corporation. R.S.O. 1990, c. P.49, s. 2 (2)."

(OEB)

2-Staff-9

Ref: E2-T1-S4 and E2-T3-S1 p.1

In the Fixed Asset continuity schedules, there is an “Allocations” column:

a) Please confirm whether these allocations involve CNPI Distribution. If not, please explain the nature of these allocations.
b) Please explain how these allocations are determined year over year.

RESPONSE:

a) Confirmed. These allocations do involve CNPI Distribution's fixed assets.

b) The allocations are reviewed and updated when CNPI distribution rebases. Please refer to the BDR report on shared services and allocations in E4-T5-S2, Appendix B. The computer hardware and software allocation is based on the IT FTEs and the equipment is based on the operations FTEs. Please see the response to 4-Staff-32d for an example of the calculation of the allocations.

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(OEB)

2-Staff-10

Ref: E2-T1-S1 p.8

CNPI Tx indicates that HONI is the lead transmitter for the Niagara Region's Regional Planning process and that because of provincial priorities the planning process has not started yet.

Absent a Regional Infrastructure plan (wires solution) on what basis should CNPI Tx's proposed capital expenditures projects (system renewal) be assessed?

RESPONSE:

In the absence of a Regional Infrastructure plan, CNPI uses the following guidelines to assess the capital projects:

- ORTAC
- IESO Market Rules (appendix 4)
- OEB TSC
- Assets condition assessment
- Technology improvement (SCADA, Protection and control, communication)

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(OEB)

2-Staff-11

Ref:E2-T1-S1 p.2-3

CNPI Tx states that in the event of failure (Line A36N & A37N between Murray TS and Stn 11), CNPI Tx's restoration plan requires CNPI Tx to switch from the HONI supply to the National Grid transmission system in New York.

a) Please confirm whether this is a single or double circuit line.
b) Is it correct that the International Power Line has been in a state of "forced outage" since March 2013?
c) Does this mean that CNPI Tx's restoration plan at presently is, in effect, un-implementable?
d) Please describe the necessity and sufficiency of the restoration plan with reference to Ontario resource and transmission assessment criteria

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RESPONSE:

a) It is a double-circuit on a single tower structure.

b) Yes.

c) Yes.

d) CNPI Tx strives to comply with the Load Security and Restoration requirements of the Ontario Resource and Transmission Criteria (ORTAC) transmission reliability guideline. Section 7.2 (a) requires that, in the event of an outage to a transmission customer caused by the failure of a single element, the affected loads must be restored within approximately 8 hours.

If one of the steel towers supporting line A36N/37N failed and needed to be replaced, the estimated time to replace a tower could be as high as three (3) days. With the IPL, the CNPI transmission system can be switched to the

National Grid system while the tower line is being repaired or replaced. The outage time for the customers could be between 2 to 6 hours.

(OEB)

2-Staff-12

Ref:E2-T2-S2 p3 and E12-T1-S1p.7

CNPI Tx indicates that $2,900,011 was invested and capitalized in 2013 for a significant expansion at Station 18 from single element (one power transformer) to dual element (two power transformers) configuration. The investment was to address the situation where CNPI Tx was not fully compliant with the reliability and security of supply standard of being reasonably able to restore power to any Customer Delivery Point within 8 hours of a forced outage.

a) On what basis did CNPI Tx decide to double element Station 18 rather than Station 17
b) All else being equal, did this investment improve CNPI Tx's ability to meet the 8 hour standard?
c) To what extent is the justification of the IPL Rebuild Project affected by this investment?

RESPONSE:

a) As described in the evidence filed previously, and as further illustrated by the response to interrogatory 11-Staff-27, the loading at Station 18 is significantly greater than the loading at Station 17.

Consultation with technical staff at CNPI LDC indicated that the CNPI LDC distribution network is expected to retain sufficient load-transfer capability until 2020 to satisfy CNPI Tx's contingency obligation per ORTAC 7.2.a to restore all loads normally served by Station 17 within 8 hours or less.

However, the CNPI LDC distribution system had insufficient load-transfer capability to transfer the much larger loads normally served by Station 18 within any reasonable time frame.

On this basis, it was necessary to provide element redundancy at Station 18.

b) Yes. As a result of this investment, CNPI Tx now expects to be able to restore all load within 8 hours, in the event of any Transmission Substation related single-element incident.

c) The expansion of Station 18 from a single element to a dual element design does not affect the justification of the IPL Rebuild Project.

Expansion of Station 18 from a single element to a dual element design allows CNPI Tx to maintain sufficient transformation capacity, in the event of the loss of any single element, i.e., the loss of a single transformation element, to meet its obligations.

The IPL Rebuild Project is intended to, among other things, provide an alternate source of electricity supply in the event of a loss of supply from the IESO controlled grid, which is essentially a single element system extending from Hydro One's transmission facilities in Niagara Falls, Canada.

The IPL Project is a break-before-make element in the CNPI Tx transmission network. This means that the CNPI Tx transmission network must be physically isolated from the Hydro One transmission network prior to receiving electricity from the New York transmission system. Because of this operating contingency, it is impossible to mitigate a loss of a single transformation element at Station 17 or Station 18 using the IPL.

(OEB)

11-Staff-13[1]

Ref:E11-T1-S1 p.20

CNPI Tx states that the IPL is used exclusively for the export of emergency power from the National Grid to CNPI Tx when CNPI Tx loses its normal supply from the IESO.

Is this the primary reason justifying the IPL Rebuild Project?

RESPONSE:

There are a number of reasons justifying the IPL Rebuild, so it is difficult to say which is the "primary" reason. While exporting emergency power from the National Grid to CNPI Tx is an important reason, another important reason is that it is part of an existing international interconnection with National Grid in NY. The IPL Rebuild Project involves the replacement of an end of life asset that has been previously approved in CNPI Tx's rate base by the OEB.

Other reasons justifying the IPL Rebuild Project are set out in evidence in Exhibit 11, Tab 1, Schedule 1: Justification for the Rebuild of IPL. The strategic value of an international intertie cannot be overstated, as noted in evidence (Exhibit 2, Tab 1, Schedule 1). The IPL is an existing Intertie between the IESO controlled grid and its neighbouring jurisdiction in New York. Ontario's interconnections with its neighbouring jurisdictions have been a significant benefit to the province[2]. The report, Review of Ontario Interties, Prepared for the Ministry of Energy by the IESO and the OPA, speaks to the economic benefits of interties, the reliability benefits of interties and the opportunity for additional benefits of interties. The IPL exists, it has an operating permit from the National Energy Board and has a well-established corridor operating for approximately 100 years.

[1] The Exhibit 11 interrogatories are grouped with those Exhibit 2 interrogatories that also pertain to the IPL Rebuild project.

[2] Review of Ontario Interties, Prepared for the Ministry of Energy by the IESO and the OPA, October 14, 2014, pages 12-14

CNPI Tx strongly believes the IPL project has in the past, is now and will in the future benefit Ontario.

(OEB)

11-Staff-14

Ref:E11-T1-S1

The Board found in its EB-2009-0283 Leave to Construct decision (p.12) that:

> ….that based on the evidence, the Project cannot be justified on the basis of the need to improve the reliability of supply to the Fort Erie load. Therefore, the Board considers the Project to be in the "Discretionary" need category, based on Section 5.2.2 of the Ontario Energy Board's "Filing Requirements for Transmission and Distribution Applications". As a "Discretionary" project, the Board assumes that the Project must be justified on economic grounds and that "doing nothing" is a viable option.

a) What has changed since the EB-2009-0283 decision which would support the Board making a finding in the instant application that "reliability of supply" is an acceptable justification for the proposed IPL Rebuild Project?
b) Did CNPI Tx consider including Economic Benefits as a justification for the IPL Rebuild Project?

RESPONSE:

PREAMBLE:

First and foremost, the project presented in EB-2009-0283, Leave to Construct Application, is not the IPL Rebuild project presented in this Application, EB-2014-0204.

The project presented in EB-2009-0283, Leave to Construct Application ("Project Fortran"), was a project which involved an expansion of CNPI Tx's transmission system. If completed, that project would have realized an international synchronous interconnection between the IESO controlled grid and the New York Independent System Operator ("NYISO") transmission network in the United States. Project Fortran was estimated to cost over $31 million and involved

significant reconfiguration of the IPL with the installation of phase shifting equipment as well as system protection and switching equipment.

This project, the IPL Rebuild Project, is a transmission system sustainment project; a like-for-like replacement of existing assets that have reached an end of life state. When completed this project sustains CNPI Tx's transmission system at its accepted capabilities and reliability. That being a normally open, break-before-make, asynchronous emergency interconnection between the IESO controlled grid and the NYISO transmission network that has existed since the IESO controlled grid was created in May 2001 and the rate payers of Ontario have benefited from since that date.

a) Board Staff seems to have confused the issues of Project Fortran and the IPL Rebuild Project, which is the removal and replacement of an existing asset already approved in the CNPI Tx rate base. In EB-2009-0283, the Board was faced with the issue of whether the $31 million plus Project Fortran expansion was justified on the basis of reliability of supply vs. doing nothing (i.e. leaving the existing IPL). In this proceeding, CNPI has presented the alternative of removing and replacing the IPL (Alternative #4) vs. removal of the IPL and its corresponding facilities (Alternative #3).[1] The $10.4 million cost of removing the IPL would be significant, and more expensive than the approximately $7 million cost of removal and replacement. Although the Board found that Fortran was not justified based on reliability of supply, the Board in this proceeding is faced with the issue of whether reliability of supply, among other reasons, justifies the IPL Rebuild Project.

[1] Exhibit 11, Tab 1, Schedule 1, Page 8 of 22.

b) The justifications for the IPL Rebuild Project are set out in the response to 11-Staff-13. The alternatives were considered and analyzed. The removal and replacement "of the existing IPL facility with a new IPL facility is responsible, consistent with good utility practice, the lowest cost alternative, and in the best interests of ratepayers." (Page 22, Exhibit 11, Tab 1, Schedule 1).

Economic grounds have been considered in the removal alternative (Alternative #3), which would cost more than the selected alternative. As stated at Exhibit 11, Tab 1, Schedule 1, Page 7, the alternative of doing nothing (Alternative #1 - Status Quo) would have a low initial capital cost, but nevertheless was not recommended because of the public safety concerns and the reduction of the reliability of the CNPI Tx transmission system.

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(OEB)

11-Staff-15

Ref:E11-T1-S1

CNPI Tx at p.4 notes that one unique entity within the Fort Erie service area that is impacted by outages to CNPI Tx's transmission system is the Buffalo and Fort Erie Bridge Authority and related immigration, border security, policing, and transportation agencies, which are responsible for operating and maintaining the Peace Bridge that connects Buffalo, New York to Fort Erie, Ontario.

a) Is the Buffalo and Fort Erie Bridge Authority a direct customer of CNPI Tx?
   i. If not, please indicate how this matter has been addressed by the distributor who serves the Buffalo and Fort Erie Bridge Authority and/or Canadian Border Services.
b) Has CNPI Tx assessed whether improved back-up generation at the border site is an economic alternative way of dealing with the adverse effects of an outage.

RESPONSE:

a) No, the Buffalo and Fort Erie Bridge Authority is not a direct customer of CNPI Tx

   i. CNPI Dx's sole transmission service provider is CNPI Tx. In the event of a complete loss of supply from its host transmitter, CNPI Dx has no ability to provide electricity distribution service to the Buffalo and Fort Erie Bridge Authority or Canadian Border Services.

   Under normal operating conditions, CNPI Dx provides a safe and reliable electricity distribution service to the Buffalo and Fort Erie Bridge Authority and the Canadian Border Services.

b) As stated in Part a), the Buffalo and Fort Erie Bridge Authority is not a direct customer of CNPI Tx. Therefore, as CNPI Dx's host transmitter, CNPI Tx has not assessed or considered providing back-up or emergency generation as

an economic alternative way of dealing with the adverse effects of a loss of supply from the IESO-controlled grid.

(OEB)

11-Staff-16

Ref:E11-T1-S1 p.36

CNPI Tx notes that the line replacement route for the IPL Replacement Project is 1,178 meters long.

What is the minimum length of a transmission line project whereby a leave to construct application is not required?

RESPONSE:

2 km, pursuant to subsection 6.2(c) of Ontario Regulation 161/99.

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(OEB)

2-Staff-17

Ref: E2-T1-S1 and E2-T2-S2 p.5 and E11-T1-S1 p.11

At E11-T1-S1 p.11 CNPI Tx indicates that it is planning to spend $1,790,000 in 2014 and $5,108,611 in 2015 for the IPL Rebuild Project for a total of $6,898,611. The cost components are:

Removal of existing facility:	$1,790,000
Construction of the new facility:	$4,378,200
Other costs:	$ 400,000
Contingency:	$ 330,411
Total:	$6,898,611

At E2-T2-S2 p.5 ln 16-17 CNPI Tx indicates that the materials for the IPL Rebuild Project will be purchased as soon as the Board approves the project.

a) How much of the total budget is for materials?
b) What is the latest date for Board approval to ensure that the project is completed by October 2015?
c) When did CNPI Tx start to incur and record costs for the IPL Rebuild Project and did it have an estimate of what the completed Project would approximately cost?
d) What are the total costs incurred to date on the IPL Rebuild project?
e) What portion of the $6,898,611 in costs is attributable to work done and materials associated with plant located in the United States?
f) Regarding the recovery of costs incurred for plant located in the US, the Board noted in its EB-2009-0283 Leave to Construct decision (p.8) that:

> With regard to the cost responsibility and approvals in that regard, the Board notes that the issue of recoverability of costs incurred in the United States is a unique issue. It raises ratemaking considerations beyond those typically addressed in a Leave to Construct proceeding. In addition, the recovery of the costs associated with works in the United States may raise jurisdictional issues. The ratemaking issues related to the costs of the International Line and works in the United States have not been fully exposed in this proceeding in any event. The Board concludes that given the scope and nature of these issues they may be better addressed in a rates proceeding.

Given the Board's findings on the application, it is not necessary to address these issues further at this time.

What evidence has CNPI Tx provided in the instant application regarding the potential jurisdictional issue noted above?

RESPONSE:

a) The total material cost is estimated at $1,233,375

b) The latest date for Board approval to ensure the project is completed by October 2015 is March 1, 2015

c) CNPI Tx started to incur and record IPL project cost in 2014. The estimated cost is $4.761 million.

d) The total costs incurred to date on the IPL Rebuild project is $1,795,180.

e) $2,367,227 of the $6,898,611 in costs is attributable to work done and materials associated with plant located in the United States.

f) It is important to recognize that the Board in EB-2009-0283 stated that "the recovery of costs associated with works in the United States **may** raise jurisdictional issues". [emphasis added] The Board made no finding on whether a CNPI capital contribution towards facilities in the United States would, in fact, pose a jurisdictional issue. Further, the Board's comment was made in the context of a synchronous intertie that could be used to export power to the United States, which is not the case with the proposed IPL.

CNPI does not believe that there is a jurisdictional issue. The salient evidence in support of this assertion is as follows:

i) CNPI will not own any transmission facilities in the United States. Rather, it intends to make a capital contribution towards transmission facilities in the United States that will be used exclusively for the purpose of conveying electricity to Ontario.

ii) The IPL will only be used to import power into Ontario. No customers in the United States will draw power from the IPL, and no power will be exported to the United States via the IPL.

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(OEB)

2-Staff-18

Ref: E2-T2-S2 Capital Projects Table & E11-T1-S1 p.11

The Capital Projects Table shows IPL Removal and Replacement cost as follows:

2012	$352,864
2013	$1,790,000
2013	$5,108,611

These three amounts total $7,251,475

At E11-T1-S1 p.11 the estimate costs for the IPL project are shown a follows:

Removal of existing facility:	$1,790,000
Construction of the new facility:	$4,378,200
Other costs:	$ 400,000
Contingency:	$ 330,411
Total:	$6,898,611

a) Please explain the discrepancy between the 2 totals.
b) Which total is reflected in the revenue requirement proposed for 2015 and 2016?
c) Have any IPL project costs i.e capital expenditures, OM&A, OM&A capitalized, depreciation, carrying costs, have been expensed in 2012 or 2013 or 2014?
    i. If so, have they been excluded from the revenue requirement calculation for 2015 and 2016? If so, please specify.

RESPONSE:

E2-T2-S2 Capital Projects Table & E11-T1-S1 p.11

2012	$352,864
2014	$1,790,000
2015	$5,108,611

a) In 2012, a total of $352,864 was invested in reinforcements to Queen Street Tower (part of the IPL) to correct structural deficiencies identified during condition assessments. The total of 2014 budget and 2015 budget is $6,898,611.

b) The total of $7,251,475 is reflected in the revenue requirement for 2015 and 2106.

c) The IPL project is defined as removal and rebuild of the IPL. CNPI began investments in the IPL project in 2014.

All the expenditures are capital expenditures and as a result have associated depreciation expenses. The following table shows the capital expenditure and the depreciation expense by year included in the revenue requirement.

IPL Rebuild		2014	2015	2016
capital additions		1,790,000	5,100,000	-
depreciation expense on 2014 additions		32,220	40,317	40,317
depreciation expense on 2015 additions			56,497	112,994
total depreciation expense		32,220	96,814	153,311

(OEB)

2-Staff-19

Ref:E2-T2-S2 p1 Capital Projects Table

The capital expenditures proposed for Station 18 for are $235,000 for 2014, $485,903 for 2015 and $90,000 for 2016.

a) Are any of these costs included the estimates provided for the IPL Rebuild Project? If so, please specify the amount.

RESPONSE:

a) No. The Station 18 capital expenditures are not included in the IPL project budget.

(page left blank intentionally)

(OEB)

2-Staff-20

Ref: E2-T1-S1

a) Please confirm whether the proposed IPL Rebuild Project increases, as compared to 2013 actual, the average net book value component of rate base by more than 40%.
    i. If not, please specify the percentage increase.

b) Please explain why CNPI Tx waited until November 2014 to file a cost of service application to seek cost recovery for a project that started in 2012 and which, if approved, will significantly increase 2015 and 2016 rate base?

c) Please re-calculate CNPI Tx's revenue requirement for 2015 and 2016 excluding all the costs associated with the IPL Rebuild Project.

RESPONSE:

a) Yes the IPL Rebuild Project including the removal of the existing assets increases the 2015 and 2016 average NBV compared to 2013 by more than 40%.

b) In a letter from the Board, dated May 29, 2014, the Board directed CNPI to file a cost of service application for the year commencing January 1, 2015 to determine an appropriate revenue requirement and charge determinants.

Originally, CNPI Tx's intention to file a cost of service application to determine an appropriate revenue requirement began when it made the decision to file the section 92 application, EB-2009-0283, on July 16, 2009. A successful section 92 application would have predicated a cost of service application.

With the Board's denial of EB-2009-0283, on March 29, 2010, CNPI Tx reviewed the condition of the IPL assets which are detailed in Exhibit 11 of this Application. Summarily, findings related to inspections of the IPL assets necessitated a like-for like rebuild of the assets in order to maintain system integrity and ensure worker and public safety.

In one of the findings by the Board, in EB-2009-0283, The Board found that jurisdiction to approve the International Line component lies with the NEB, and not the Board[1].

Prior to returning to the Board with a cost of service application, CNPI applied to the National Energy Board ("NEB") pursuant to Sections 21(2) and 58(11) of the National Energy Board Act, R.S.C., 1985, c. N-7, for an authorization and/or approval to complete removal and replacement work on the IPL. The NEB issued approval of that application on June 26, 2014. Inclusion of the NEB's approval in this cost of service Application allowed CNPI Tx to comply with the Board's finding with respect of jurisdiction.

Transmission projects such as the IPL rebuild are complex in nature and require time and extensive planning to execute. In addition to the engineering studies and physical evaluations of the assets, a project such as the IPL Rebuild requires a great amount of coordination and cooperation of many parties, both in Canada and in the United States. The timing of the filing of this application was entirely acceptable given the complexity of the project, the NEB application and approval and the extensive coordination of the numerous parties involved.

c) The 2015 and 2016 revenue requirements excluding all costs for the IPL Rebuild Project including the removal of the existing assets are shown below.

[1] Board Decision, EB-2009-0283, page 7, March 29, 2010

Revised Revenue Requirement 2015

Line No.	Particulars	Requested 2015	Revised 2015	Change	%
1	OM&A Expenses	$ 1,877,416	$ 1,877,416	$ -	0.0%
2	Amortization/Depreciation	$ 820,993	$ 724,179	$ (96,814)	-11.8%
3	Property Taxes	$ 135,300	$ 135,300	$ -	0.0%
4	Capital Taxes	$ -	$ -	$ -	
5	Income Taxes (Grossed up)	$ 134,672	$ 167,450	$ 32,779	24.3%
6	Other Expenses	$ -	$ -	$ -	
7	Return				
	Deemed Interest Expense	$ 753,647	$ 605,029	$ (148,618)	-19.7%
	Return on Deemed Equity	$ 808,683	$ 649,212	$ (159,471)	-19.7%
8	Transmission Revenue Requirement before Revenues	$ 4,530,710	$ 4,158,586	$ (372,124)	-8.2%
9	Transmission revenue	$ 4,530,710	$ 4,158,586	$ (372,124)	-8.2%
10	Other revenue	$ -	$ -	$ -	
11	**Total revenue requirement**	$ 4,530,710	$ 4,158,586	$ (372,124)	-8.2%

Revised Revenue Requirement 2016

Line No.	Particulars	Requested 2016	Revised 2016	Change	%
1	OM&A Expenses	$ 1,919,060	$ 1,919,060	$ -	0%
2	Amortization/Depreciation	$ 885,209	$ 731,898	$ (153,311)	-17.3%
3	Property Taxes	$ 138,006	$ 138,006	$ -	0.0%
4	Capital Taxes	$ -	$ -	$ -	
5	Income Taxes (Grossed up)	$ 129,939	$ 183,165	$ 53,227	41.0%
6	Other Expenses	$ -	$ -	$ -	
7	Return				
	Deemed Interest Expense	$ 842,171	$ 608,942	$ (233,229)	-27.7%
	Return on Deemed Equity	$ 903,671	$ 653,411	$ (250,261)	-27.7%
8	Transmission Revenue Requirement before Revenues	$ 4,818,057	$ 4,234,483	$ (583,574)	-12.1%
9	Transmission revenue	$ 4,818,057	$ 4,234,483	$ (583,574)	-12.1%
10	Other revenue	$ -	$ -	$ -	
11	**Total revenue requirement**	$ 4,818,057	$ 4,234,483	$ (583,574)	-12.1%

The scenario presented here in part c) is not a viable end-state for the CNPI Tx transmission system. In Interrogatory 11-Staff-25 part c), Board staff queried as to whether or not the removal of the 115 kV line between Station 18 and Bertie Hill tower was a legal and/or regulatory or equivalent requirement. As discussed in 11-Staff-25 part c), it is primarily an engineering requirement or good utility practice. In the absence of the IPL, CNPI Tx cannot continue to maintain and support the approximately 2 km of 115 kV transmission line from Station 18 to the Bertie Hill Tower.

(OEB)

2-Staff-21

Ref:E2-T1-S1 and E11-T1-S1 Appendix C & Appendix E

At p. 8 (11) CNPI Tx notes that the OPA supports the IPL Rebuild Project and is of the view that "maintaining an international transmission corridor has strategic value in the future should further interconnection capability be required."

a) Has the OPA indicated to CNPI Tx when in the future the interconnection capability will be required?
b) Is it correct that the interconnection capability for this line is not included in the OPA's Long Term Energy Plan or Integrated Power System Plan (Bulk System Planning)?
c) At p. 21 (E11) CNPI Tx indicates that the IPL is asynchronous (non-synchronous). Will the proposed rebuilt IPL be non-synchronous?
    i. If non-synchronous, how useful will the transmission line intertie be for importing and exporting activities i.e. increasing the transfer capacity of the IESO and NYISO controlled grids?
    ii. If non-synchronous, are the loads that IPL can serve through imported power only those loads that are connected to CNPI's transmission system?
    iii. If non-synchronous, must the CNPI Tx transmission system be isolated from all supply or generation sources in Canada before CNPI load is connected to the National (US) grid?
d) What is the nature of the land agreements associated with the Ontario section of the transmission corridor? What would happen to the corridor lands and associated easements/rights if the transmission line is dismantled and not rebuilt?

RESPONSE:

a) The OPA has recognized the strategic value of maintaining an international corridor "should further interconnection be required". The OPA has not indicated when in the future further interconnection capability will be required, but has recognized that the possibility is worthy of maintaining the existing corridor.

b) Correct.

c) (i) The rebuilt IPL will be non-synchronous, just as it always has been. The line as proposed will only be used to bring electricity into Ontario.

(ii) The IPL will serve loads connected to CNPI's transmission system.

(iii) Yes.

d) CNPI has both registered and unregistered easements in respect of the Ontario section of the transmission corridor. The unregistered easements are claimed by virtue of the open enjoyment and use of the transmission corridor.[1] Therefore, the continued use of the transmission corridor is essential to the claim by CNPI of unregistered easement rights. If the transmission line were dismantled and not rebuilt, CNPI will lose the benefit of its unregistered easements.

[1] Pursuant to subsection 113(5)(a)(iv) of the *Registry Act (Ontario),* CNPI's unregistered claim is contingent on CNPI "openly enjoying and using" the land.

(OEB)

2-Staff-22

Ref: E2-T1-S2

Attached to Board staff IRs as Appendix A is a document called the *Ontario Resource and Transmission Assessment Criteria-issue 5.0* (ORTAC*)* which is published by the IESO.

a) Please elaborate if, and illustrate how, if applicable, this document informed CNPI Tx's Transmission Asset Plan and proposed capital expenditures for the 2015 and 2016 test years.

RESPONSE:

CNPI complied with the provisions of ORTAC and prepared its Transmission Asset Management Plan and prepares its capital expenditures for all years with its provisions in mind.

In particular, ORTAC Sections 2.7.2, 4.2, 4.3, 4.7, 5.1, and 7.1 address reliability concerns and system design parameters that were taken into account when scheduling capital projects and selecting proposed equipment and components to be used on those projects.

The single-contingency 8-hour restoration requirement of ORTAC Section 7.2 provided a significant influence on CNPI Tx's project selection, as major projects in the 2015 and 2016 budgets were included as a result of identification of areas of exposure in the CNPI Tx system where restoration within 8 hours was neither guaranteed nor likely without further capital investments.

Specifically, need for the IPL (Line 46) rebuild project was determined, among other reasons, by the requirement to be reasonably able to restore supply to the two CNPI Tx Customer Delivery Points ("CDPs") within 8 hours if CNPI Tx were forced to rely on the single-line radial nature of Line 2 and radial double-circuit

single-tower A36/A37 configuration. This also includes the related capital project at the Station 18 terminal of Line 46.

(OEB)

2-Staff-23

Ref: E2-T5-S2

At page 3 table 1 CNPI Tx presents its proposed delivery point performance targets for 2015 and 2016. On page 4, it notes CNPI is adopting performance standards in HONI's CDPPS document.

Table1: Delivery Point Performance Targets based on Load Size

Performance Measure	Delivery Point Performance Target (Based on a Delivery Point's Total Average Station Load)			
	0 to 15MW		15 to 40 MW	
	Standard (Average Performance)	Minimum Standard of Performance	Standard (Average Performance)	Minimum Standard of Performance
DP Frequency of Interruptions (Outages/year)	4.1	9	1.1	3.5
DP Interruption Duration (minutes/year)	89	360	22	140

a) Please confirm that the document titled "Customer Delivery Point Performance Standards" attached as Appendix B to these IRs is the referenced HONI CDPPS document. Please confirm that the Board file number for this document is RP-1999-0057/EB-2002-0424.

b) Should the range presented as "15-40MW' in table 1 above be expressed as ">15-40MW" in that the other range is "0 to15MW'.

c) Please indicate which performance measures (i.e for 0 to 15MW or for 15-40MW) will apply for each of CNPI Tx's two customer delivery points

d) Page 5 discusses the use of a five year average from 2009 to 2013. Please prepare a table which compares CNPI Tx's actual performance in each of 2009, 2010, 2011, 2012 and 2013 as well as the noted five year average against the targets shown in table 1 above.

e) HONI's CDPPS document that was approved by the Board discusses "cost responsibility" and "process timelines" where there is a need for remedial action to address performance outliers. Please explain why CNPI Tx'sdocument does not address those two matters.

f) As explained in HONI's Board approved CDPPS document, the purpose of these standards is to maintain the "historical" level of performance at each

delivery point. Why does CNPI intend to restore a delivery point to only the "minimum" standard as explained on page 5?

g) The IESO ORTAC document at p. 30 requires the following regarding Load Restoration Criteria:

> **7.2 Load Restoration Criteria**
>
> The *IESO* has established load restoration criteria for high voltage supply to a *transmission customer*. The load restoration criteria below are established so that satisfying the restoration times below will lead to an acceptable set of *facilities* consistent with the amount of load affected.
>
> The *transmission system* must be planned such that, following design criteria contingencies on the *transmission system*, affected loads can be restored within the restoration times listed below:
>
> a. All load must be restored within approximately 8 hours.
> b. When the amount of load interrupted is greater than 150MW, the amount of load in excess of 150MW must be restored within approximately 4 hours.
> c. When the amount of load interrupted is greater than 250MW, the amount of load in excess of 250MW must be restored within 30 minutes.
>
> These approximate restoration times are intended for locations that are near staffed centres. In more remote locations, restoration times should be commensurate with travel times and accessibility.

Does CNPI Tx agree that CNPI's service expectation would fall under category "a" given the size of the load it serves? Does CNPI's proposed hourly equivalent restoration performance target differ from "within 8 hours"? If so, please explain why.

RESPONSE:

a) CNPI Tx confirms that the cited document in our CDPPS is HONI document RP-1999-0057/EB-2002-0424 (as revised on Feb 7, 2008), and was used for reference in the selection of CNPI Tx performance targets.

b) The referenced range in Table 1 for "15-40MW" can be considered to be ">15 MW to 40MW" in the unlikely event that a Customer Delivery Point (CDP) should have an average peak load of exactly 15 MW. CNPI will so amend this table entry.

c) At outlined in the evidence, CNPI Tx has two CDPs (Station 17 and Station 18). Both of these CDPs fall into the ">15MW to 40 MW" category using the peak load criteria outlined in the CDPSS.

d)

Station 17	**Historical DP Outage Frequency** (excludes momentary interruptions)	**Average Target** (# of events)	**Maximum Target** (# of events)	**Historical DP Outage Duration** (minutes/year)	**Average Target** (minutes/year)	**Maximum Target** (minutes/year)
2009	0.00	1.1	3.5	0	22	140
2010	0.00			0		
2011	0.00			0		
2012	2.00			580		
2013	1.00			60		
5 Year Average	0.60	1.1	3.5	128	22	140

Station 18	**Historical DP Outage Frequency** (excludes momentary interruptions)	**Average Target** (# of events)	**Maximum Target** (# of events)	**Historical DP Outage Duration** (minutes/year)	**Average Target** (minutes/year)	**Maximum Target** (minutes/year)
2009	0.00	1.1	3.5	0	22	140
2010	0.00			0		
2011	1.00			26		
2012	3.00			656		
2013	0.00			0		
5 Year Average	0.80	1.1	3.5	136	22	140

All CNPI Tx (Both CDP)	**Historical DP Outage Frequency** (excludes momentary interruptions)	**Average Target** (# of events)	**Maximum Target** (# of events)	**Historical DP Outage Duration** (minutes/year)	**Average Target** (minutes/year)	**Maximum Target** (minutes/year)
2009	0.00	1.1	3.5	0	22	140
2010	0.00			0		
2011	0.50			13		
2012	2.50			618		
2013	0.50			30		
5 Year Average	0.70	1.1	3.5	132	22	140

e) The CNPI Tx document does address remedial cost responsibility, in section 6.

The Ontario Transmission System Code (TSC) already adequately defines costs responsibilities in some great detail, and CNPI Tx complies with all such requirements as outlined in the TSC. For clarity and consistency, CNPI Tx has chosen not to reiterate or summarize these costs responsibilities in its CDPSS.

Process timelines were not included because CNPI Tx only has one Load Customer, CNPI LDC. As a relatively small organization, CNPI performs regular and ongoing reviews of its performance and quality of service to its customers for both its transmission and its distribution systems, separately and together.

f) Due the extensive nature of the HONI transmission system, it is likely that the performance of the attached HONI system will trigger the majority of service interruption events to CNPI Tx's load customer. Historically, that has been the case.

Therefore, the provisions of the HONI document referenced in response (a) above were matched in Section 4 of the CNPI CDPPS for "outlier identification", since it was expected that any response to reliability concerns would involve consultation with HONI. In that event, using similar criteria would allow for a cooperative response. This choice also allowed CNPI's load customer to expect reliability similar to that of the great majority of Ontario's load customers.

The identification of "Performance Inliers" on page 5 does use the average performance as a benchmark. As can be seen in response (d) of this question, both CDPs became performance 'inliers' in 2012 when their actual reliability performance (w.r.t. Outage Durations) exceeded the Average Target. This was one of the triggers for the initiation of the IPL project.

g) CNPI Tx agrees that its service expectation falls under category 7.2.a (8 hours for any single contingency). CNPI Tx has no reason to seek an exemption from this criteria as outlined in section 7.3 of ORTAC.

(OEB)

2-Staff-24

Ref:E11-T1-S1 p4

a) Please define what is entailed by the phrase "catastrophic failure at CNPI Station #11".

b) CNPI states, "Without the IPL, the distributor would experience a power outage if live line maintenance could not be performed on the CNPI Tx 115kV line."

   i. Can live line maintenance be performed safely on CNPI's Tx's 115kV line?
   ii. Please provide a high level description of the reasons that the IPL facilities are favoured versus live line maintenance.

RESPONSE:

a) An example of a catastrophic failure at CNPI Station 11 would include events such as a fire in the control building or structural failure of the 115 k bus and/or breakers.

b)

i. Live line work on 115kV requires a different skillset and equipment to perform it safely. Since this work does not occur regularly, CNPI does not maintain the capacity to safely perform 115 kV live line work.

ii. Certain maintenance tasks performed on critical equipment on the 115 kV system between Station 11 and Station 17 (such as switches in series with the single 115 kV line) cannot be completed on a live system and require an outage of the 115 kV lines. These circumstances will result in a system-wide outage. During these situations, Station 18 can be connected to New York National Grid system via the IPL and Station 17 load can be transferred to Station 18, therefore avoiding the system-wide customer outage.

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(OEB)

11-Staff-25

Ref:E11-T1-S1

One of the IPL project alternatives (#3) that CNPI Tx considered is the "Removal of the IPL, Retirement of Line 46 from Station 18 to the National Grid Buffalo High Tower, and Reinforcement of the CNPI Tx transmission system to meet current reliability standards". The estimated cost for this proposal is shown below:

Actions	Estimated cost
Remove the existing IPL	$1,790,000
Improve CNPI line crew's transmission capability	$1,100,000
Relocate 1.5 km 115 kV line	$1,500,000
Retire the 115 kV line between Station 18 and Bertie Hill tower	$5,903,163
Construct a dead-end structure at Station 18	$100,000
Total	$10,420,163

Note: Does not include CNPI contribution would have to make to the National Grid to retire the transmission line from Buffalo High Tower to Dearborn Street.

a) Why is "retiring the 115 kV line between Station 18 and Bertie Hill tower" ($5.9M) 3 times more expensive than "removing the existing IPL($1.1M)?
b) What are the specific "access" issues on the 1.5 km of kV line, which has a 30 foot right of way, which requires its relocation at a cost of $1.5M?
c) Under alternative #3, is the removal of the 115 kV line between Station 18 and Bertie Hill tower a legal and/or regulatory or equivalent requirement?

RESPONSE:

a) The removal of the IPL involves retiring 2 lattice steel towers and two spans of conductors. The 1.5 km of 115 kV line consists of 1 dead-end lattice steel tower and 31, 80 to 90 feet tall steel tubular towers off road construction. These steel towers have up to 20 cubic feet concrete foundations. This section of line crosses five (5) major roads, including the QEW. The retirement cost includes right-of-way restoration. In addition, there are two

34.5 kV distribution circuits on this 115 kV line section. The cost of $400,000 to rebuild this double circuit is included in the $5.9 million.

b) This section of line is located in a well-developed residential area. The right-of-way is adjacent to fenced back yards with swimming pools, small buildings, and flower beds. During winter time, extensive snow removal is required and the line trucks and the pole trailer are difficult to manoeuver along the right-of-way. It is estimated that twelve (12) to twenty-four (24) hours are required to replace a broken pole at some of the locations. The line also crosses the Welland River in this area. To replace this section of line, approximately 2.5 km of new line section is required along another right-of-way, including a new river-crossing, to avoid this subdivision. The cost of the new line section is estimated at $1.5 million.

c) Under alternative #3, removal of the 115 kV line between Station 18 and Bertie Hill tower is primarily an engineering requirement on the basis of good utility practice. With the IPL no longer in existence, the section of 115 kV transmission line between Station 18 and the Bertie Hill tower will be electrically isolated from the remainder of CNPI Tx's transmission system; it will dead-end at the Bertie Hill tower and be electrically isolated at Station 18. The result will be a derelict section of transmission line with no purpose. Unless it is removed in a controlled and engineered manner by qualified workers it will posed an unknown and uncontrolled safety risk to the public and to CNPI electricity transmission and distribution facilities.

There are also legal and/or regulatory issues as well. These include matters such as the validity of CNPI Tx's property rights should the facility no longer be an operating electricity transmission facility.

(OEB)

11-Staff-26

Ref: E11-T1-S1 p.10-11 and E2-T2-T1 Appendix A

For the IPL Rebuild Project CNPI Tx is capitalizing the removal cost of $1,790,000 as can be seen in E2-T2-T1 Appendix A in 2015.

a) Please explain why CNPI Tx is proposing to capitalize this amount instead of expensing this amount.
b) Please provide any accounting guidance CNPI Tx is relying on to capitalize the removal costs.
c) CNPI Tx expects to remove the IPL by November 2014. Has CNPI Tx discussed the treatment for financial reporting purposes with its auditor? What was the result of these discussions?
d) Please indicate if there were any gains or losses recognized and the amount of any gains or losses as a result of the disposal of the IPL asset. Please indicate where the gains or losses, if any are recorded in the rate application.

RESPONSE:

a) CNPI Tx is proposing to capitalize this amount because it is site preparation for the replacement of the existing asset in rate base.

b) The accounting guidance is in the CPA Canada Accounting Handbook Part II, Section 3061, paragraph .05. " *The cost of an item of property, plant and equipment includes the purchase price and other acquisition costs such as option costs when an option is exercised, brokers' commissions, installation costs including architectural, design and engineering fees, legal fees, survey costs,* ***site preparation costs****, freight charges, transportation insurance costs, duties, testing and preparation charges*." [emphasis added]

c) The treatment was not discussed with the auditors because the accounting guidance is very clear and it is consistent with the historical accounting treatment for similar items.

d) There were no gains or losses recognized as a result of the disposal of the IPL asset.

(OEB)

11-Staff-27

Ref: E11-T1-S1 p.2

CNPI provides the non-coincidental peak loads at Station 17 and Station 18 for July 2010.

a) Why has CNPI provided peak load information for Station 17 and 18 only for July 2010?
b) Please complete the tables below for 2007-2014:

Table A – Non-coincident Peak load information for Stn. 17 and Stn. 18

Year	**Station 17**	**Station 18**	**Day/Month peak experienced**
2007			
2008			
2009			
2010	21.4 MVA	41.1 MVA	
2011			
2012			
2013			
2014			

Table B – Coincident Peak load information for Stn. 17 and Stn. 18

Year	**Station 17**	**Station 18**	**Day/Month peak experienced**
2007			
2008			
2009			
2010			
2011			
2012			
2013			
2014			

RESPONSE:

a) The peak loads were only provided for July 2010 as evidence because that was the month with the highest coincidental peak load[1] observed by CNPI Tx. This was used to illustrate the different maximum peak loadings at CNPI Tx's two CDPs at the time of the maximum load delivered to date.

b) See below.

Table A – Non-coincident Peak load information for Stn. 17 and Stn. 18

Year	**Station 17 MVA**	**Station 18 MVA**	**Month peak experienced**
2007	48.6**	40.7	July, 2007
2008	20.8	41.2	July, 2008
2009	20.8	40.4	August, 2009
2010	21.4	41.1	July, 2010
2011	41.2**	38.7	November / October 2011
2012	46.0**	41.6	August / July 2012
2013	34.0**	38.9	May / July 2013

** result of CNPI LDC load transfers between Station 17 and Station 18 to facilitate CNPI Tx Planned Maintenance at Station 18.

[1] There have been several occasions, as noted in table A, when the sum of the non-coincidental monthly station peaks exceeded the 62.5 MVA recorded in July, 2010. In each such case, this was non-coincidental, and was the result of 'double-counting' of the same block of load transferred between the two CDPs. 62.5 MVA is the highest 'normal' monthly non-coincident peak load delivered to CNPI LDC to date. At that time, the coincident peak was 56.2 MW.

Table B – Coincident Peak load information for Stn. 17 and Stn. 18

Year	**Station 17 MW**	**Station 18 MW**	**Month peak experienced**
2007	20.9	35.7	August
2008	18.8	37.4	July
2009	19.2	36.8	August
2010	18.6	37.6	July
2011	21.3	34.3	July
2012	17.7	34.9	July
2013	17.9	34.9	July

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(OEB)

3-Staff-28

Ref:E3-T1-S2 p.3 & table 3.1.2.3

For forecasting purposes, CNPI Tx notes that the IESO billing determinant monthly (non-coincident) actuals have been normalized for load transfers between CNPI Tx's delivery points by replacing the demands thereby created with "averaged monthly demands".

Please describe how the "averaged monthly demand" is calculated, using the normalized amount (43.7MW) for May as an example.

RESPONSE:

The following two tables were provided in Exhibit 3, Tab 1, Schedule 2.

Table 3.1.2.2 Actual Non-coincident Demands Used to Settle the Market

IESO Peak Billing Determinant (Non-coincident Sum of 17 and 18) MW													
Year/Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2002					41.7	51.0	55.3	55.8	52.1	42.0	43.2	47.7	388.8
2003	46.9	46.6	45.1	43.2	43.5	49.7	51.9	54.5	44.4	64.3	64.2	47.9	602.1
2004	49.4	45.8	44.5	41.8	43.8	47.2	51.2	50.3	48.9	66.2	44.4	50.8	584.3
2005	48.2	44.8	44.9	41.0	39.1	57.2	59.8	56.8	63.0	43.2	46.6	49.2	593.9
2006	45.0	45.3	43.4	40.4	50.4	49.3	57.5	60.0	43.0	69.4	55.0	56.4	615.0
2007	48.3	50.7	66.7	42.4	45.6	55.9	81.1	57.4	55.5	42.6	45.7	49.9	641.7
2008	56.5	47.7	51.7	45.5	38.7	53.2	56.5	52.7	50.6	46.9	45.4	49.4	594.7
2009	49.0	47.6	45.7	65.6	40.1	47.6	45.6	56.3	42.2	39.8	42.9	54.4	576.9
2010	46.6	44.4	40.4	37.0	48.2	48.6	57.4	55.4	53.8	38.4	54.5	64.8	589.4
2011	46.3	45.6	42.4	39.6	45.6	46.6	56.5	52.1	52.9	49.9	71.3	42.3	591.1
2012	48.5	50.4	40.3	37.6	50.8	50.0	56.0	76.6	49.8	47.4	40.3	41.3	589.0
2013	43.4	41.0	40.1	57.6	62.1	43.9	54.0	48.5	47.1	58.4	39.4	44.1	579.5
2014	46.3	42.6	41.4	36.8	56.2	54.6	64.5	45.4	47.4	-	-	-	435.3

Table 3.1.2.3 Normalized Non-coincident Demands

IESO Normalized Billing Determinant (Non-coincident Sum of 17 and 18) MW													
Year/Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2002	-	-	-	-	41.7	51.0	55.3	55.8	52.1	42.0	43.2	47.7	388.8
2003	46.9	46.6	45.1	43.2	43.5	49.7	51.9	54.5	44.4	43.8	43.5	47.9	560.9
2004	49.4	45.8	44.5	41.8	43.8	47.2	51.2	50.3	48.9	43.8	44.4	50.8	561.9
2005	48.2	44.8	44.9	41.0	39.1	57.2	59.8	56.8	49.0	43.2	46.6	49.2	579.9
2006	45.0	45.3	43.4	40.4	43.7	49.3	57.5	60.0	43.0	43.8	43.5	47.0	561.7
2007	48.3	50.7	43.6	42.4	45.6	55.9	55.5	57.4	55.5	42.6	45.7	49.9	593.1
2008	47.1	47.7	51.7	45.5	38.7	53.2	56.5	52.7	50.6	46.9	45.4	49.4	585.3
2009	49.0	47.6	45.7	40.5	40.1	47.6	45.6	56.3	42.2	39.8	42.9	47.0	544.3
2010	46.6	44.4	40.4	37.0	48.2	48.6	57.4	55.4	53.8	38.4	43.5	47.0	560.6
2011	46.3	45.6	42.4	39.6	45.6	46.6	56.5	52.1	52.9	49.9	43.5	42.3	563.3
2012	48.5	50.4	40.3	37.6	50.8	50.0	56.0	53.8	49.8	47.4	40.3	41.3	566.2
2013	43.4	41.0	40.1	40.5	43.7	43.9	54.0	48.5	47.1	43.8	39.4	44.1	529.4
2014	46.3	42.6	41.4	36.8	43.7	54.6	64.5	45.4	47.4	-	-	-	422.8

The highlighted cells represent the months that have been normalized to address the load transfers between Delivery Points.

In the case of the month of May, the normalized non-coincident demand has been calculated as 43.7 MW.

This has been accomplished by taking an average for May in all years where the non-coincident demand has not been influenced by a load transfer.

Therefore;

(May 02 + May 03 + May 04 + May 05 + May 07 + May 08 + May 09 + May 10 + May 11 + May 12) / 10 = Normalized Average

(41.7+43.5+43.8+39.1+45.6+38.7+40.1+48.2+45.6+50.8)/10 = 43.7 MW

(OEB)

3-Staff-29

Ref:E3-T1-S2 p.5

CNPI Tx indicates 92.5% as the coincident factor with system peak.

Please demonstrate how a 92.5% coincident factor is used in the calculation that generates a Network Service determinant of 522,070 kW for 2015.

RESPONSE:

In Exhibit 3 Tab 2 Schedule 2 on page 5 of 6 at line 14, CNPI Tx stated,

> Historically, over the period from May 2002 to September 2014, the Network Service determinant has had a 92.5% coincidence factor with the system peak.

It should have read,

> Historically, over the period from May 2002 to September 2014, the Network Service determinant has had a 95.2% coincidence factor with the system peak.

The Network Service determinant of 522,070 kW for 2015 is 95.2% of the 2015 Demand Forecast of 548,392 kW, provided in Table 3.1.2.6.

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(OEB)

4-Staff-30

Ref: E4-T4-S2 and E1-T4-S1 2013 Audited Financial Statements

In the CNPI 2013 audited financial statements, note 1B indicates that CNPI is adopting CPA Handbook Section 3462 as of January 1, 2014 which requires unamortized pension and other retirement benefits amounts as at December 2013 to be retroactively charged to retained earnings. The Board allowed CNPI to establish specific deferral and variance accounts relating to the unamortized amounts in the proceeding EB-2013-0368/EB-2013-0369.

a) Please confirm that similar to CNPI, CNPI Tx will be required to recognize the unamortized pension and other retirement benefit amounts in retained earnings as at January 1, 2014 as well. If not, please explain why not.
b) Please indicate whether this amount is material. If material, please explain what CNPI Tx proposes to do with the amount in this current rate application.

RESPONSE:

a) CNPI Distribution and CNPI Tx is one legal entity. The pension and post-retirement assets and liabilities are booked on CNPI Distributions' balance sheet due to the fact all CNPI employees are considered employees of CNPI Distribution. The salaries, wages and benefits are charged to CNPI Tx through allocations and time sheets.

b) Based on the fact that the number of FTEs charged to CNPI Tx is 11.78 the amount would not be material. Refer to Exhibit 4, Tab 4, Schedule 2, for the discussion of pension and post-retirement benefits expense.

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(OEB)

4-Staff-31

Ref: E4-T4-S2

CNPI Tx last rebased in 2002. For Other Post Employment Benefits ("OPEBs"):

a) Please indicate if OPEBs were recovered as part of CNPI Tx's last rebasing application.
b) If yes, please indicate if OPEBs were recovered on a cash or accrual accounting basis.
c) Please complete the table below to show how much has been recovered from ratepayers from the year CNPI Tx started recovering amounts for OPEBs in comparison to the actual cash benefit payments.

OPEBs	**2002 to 2012**	**2013**	**2014**	**2015**	**2016**	**Total**
Amounts included in rates						
OM&A						
Capital expenditures						
Sub-total						
Paid benefit amounts						
Net excess amount included in rates greater than amounts actually paid						

d) Please describe what CNPI Tx has done with the recoveries in excess of cash benefit payments, if any.

RESPONSE:

a), b) &c)

In CNPI Tx's last rebasing application, allocations between the transmission and distribution business were made on one-third/two-thirds basis and were accepted

at that time. CNPI, as a whole, did not introduce a formalized method of shared services allocations until the 2006 EDR. CNPI's current method of allocating its shared services was first accepted by the Board with approval of electricity distribution rates effective May 1, 2006.

Any efforts by CNPI to retrospectively estimate how much has been recovered from ratepayer would be founded upon a series of estimations which can neither be proved nor disproved.

(OEB)

4-Staff-32

Ref: E4-T10-S3 and E2-T1-S4 p.1-7

In the depreciation schedules,

a) Please explain the purpose of the column titled "Adjustment for capitalization date" in the Depreciation Schedules/without the accounting policy changes for the years 2011-15, and please explain how the amount was calculated.
b) Please explain why the "Adjustment for capitalization date" only applies to the 2011 to 2015 Depreciation Schedules/ without the accounting policy changes but does not apply to the 2015 and 2016 Depreciation Schedules/with the accounting policy changes.
c) Please explain how the depreciation expense on asset allocation is calculated.
d) Please explain how the depreciation expense on asset allocation correlates to the gross cost of asset allocation as shown in the table below.

		2010	2011	2012	2013	2014	2015	2016
E2-T1-S4 (Appendix 2-BA)	**Cost**	1,156,032	1,794,262	1,837,772	1,957,904	2,415,057	2,501,882	2,602,482
	Accumulated Depreciation	-756,813	-1,246,596	-1,280,471	- ,375,797	-1,734,549	- 1,878,549	- 2,012,596
	Net Book Value	399,219	547,666	557,301	582,107	680,508	623,333	589,886
E4-T10-S4 (Appendix 2-CM to CU)	**Depreciation Expense**	Not provided	489,783	33,875	95,326	358,752	144,000	134,047

RESPONSE:

a) The adjustment column is necessary because CNPI Tx does not use the half year rule. Refer to Exhibit 4, Tab 10, Schedule 1, for the description of the amortization calculation.

b) As described in Exhibit 4, Tab 10, Schedule 1, the half year rule is used for the Bridge and Test years. In 2015 without the accounting policy changes the adjustment column is still required due to the previous years' additions that were not subject to the half year rule. In 2015 with the accounting policy changes the calculation of depreciation expense is the NBV of the asset at January 1, 2015 divided by the remaining useful life plus the half year rule applied to additions, therefore there is no need to take into account any additions in the previous year that were not subject to the half year rule in calculating the depreciation expense.

c) The depreciation expense on asset allocations is calculated as the difference between the opening and closing accumulated depreciation balances.
The depreciation expense on asset allocations is calculated below.

Fixed Asset Allocations		
Year	Accumulated Depreciation	Depreciation Expense
2010	$ 756,813	
2011	$ 1,246,596	$ 489,783
2011	$ 1,246,596	
2012	$ 1,280,471	$ 33,875
2012	$ 1,280,471	
2013	$ 1,375,797	$ 95,326
2013	$ 1,375,797	
2014	$ 1,734,549	$ 358,752
2014	$ 1,734,549	
2015	$ 1,878,549	$ 144,000
2015	$ 1,878,549	
2016	$ 2,012,596	$ 134,047

d) The asset allocations represent the corporate allocation of assets to CNPI Tx. See Exhibit 4 for the discussion of shared services and corporate allocations.

An example of the calculation of the allocations for 2011 and 2012 is below.

CNPI Corporate Year End Balances

	2011			
	computer hardware and software - 6% equipment - 19%			
Asset	COST		ACCUM DEPR	
	EOY	ALLOCATION	EOY	ALLOCATION
GA Office Furn & Equipment	1,299,734.12	(246,949.48)	(1,193,042.60)	226,678.09
GA Comp Hardware	2,564,525.81	(153,871.55)	(1,617,601.05)	97,056.06
GA Comp Software	7,457,958.23	(399,289.21)	(4,549,850.03)	229,571.94
GA Transportation Equipment	2,435,292.97	(462,705.66)	(1,391,659.96)	264,415.39
GA Stores Equip	166,152.13	(31,568.90)	(149,535.14)	28,411.68
GA tools,shop&garage equip	657,962.33	(125,012.84)	(619,252.40)	117,657.96
GA measure&test equip	458,572.54	(87,128.78)	(388,271.79)	73,771.64
GA Comm Equipment	632,035.57	(120,086.76)	(364,719.02)	69,296.61
GA Misc. Equip	138,987.68	(26,407.66)	(85,947.00)	16,329.93
GA System Supv Equip	743,377.04	(141,241.64)	(649,509.58)	123,406.82
TOTAL	**16,647,473.57**	**(1,794,262.49)**	**(11,095,773.63)**	**1,246,596.13**
DEPRECIATION EXPENSE				**489,782.82**

	2012			
	computer hardware and software - 5% equipment - 19%			
Asset	COST		ACCUM DEPR	
	EOY	ALLOCATION	EOY	ALLOCATION
GA Office Furn & Equipment	1,311,230.11	(249,133.72)	(1,223,581.05)	232,480.40
GA Comp Hardware	3,126,376.53	(156,318.83)	(1,955,465.98)	97,773.30
GA Comp Software	7,902,394.24	(354,962.81)	(5,032,846.76)	211,485.44
GA Transportation Equipment	2,535,661.89	(481,775.76)	(1,544,276.11)	293,412.46
GA Stores Equip	166,152.13	(31,568.90)	(154,162.79)	29,290.93
GA tools,shop&garage equip	707,704.17	(134,463.79)	(630,607.42)	119,815.41
GA measure&test equip	458,572.54	(87,128.78)	(405,481.01)	77,041.39
GA Comm Equipment	919,842.16	(174,770.01)	(385,388.39)	73,223.79
GA Misc. Equip	138,987.68	(26,407.66)	(98,229.69)	18,663.64
GA System Supv Equip	743,377.04	(141,241.64)	(669,915.40)	127,283.93
TOTAL	**18,103,173.64**	**(1,837,771.91)**	**(12,187,106.92)**	**1,280,470.69**
DEPRECIATION EXPENSE				**33,874.56**

(OEB)

4-Staff-33

Ref: E4-T11-S2 and E4-T11-S3

In E4-T11-S2 and S3, the split of PILs between CNPI Distribution and CNPI Tx is shown. Please explain how the allocation of the line items in the PILs calculation between CNPI Distribution and CNPI Tx is determined, including the allocation of UCC pool for CCA purposes and the tax credit.

RESPONSE:

The allocation of the line items in the income tax calculation between CNPI Distribution and CNPI Tx is shown below. The UCC pool is not allocated, it is comprised of CNPI Tx assets.

TAX CALCULATIONS - CNPI	
	Basis for Allocation between
Description	**Distribution and Tx**
Additions	
Interest and penalities	prorate by rate base
Amortization of assets	transmission assets
Loss on disposal of assets	transmission assets
SHRED	Note 1
Donations	prorate by FTEs
Non-deductible meals and entertainment	prorate by FTEs
Reserves from financial statements - EOY	prorate by FTEs
Amortization of deferred financing	prorate by rate base
Amortization of deferred lease costs	Note 1
Ontario apprentice and co-op tax credits	prorate by FTEs
Tax reserves - EOY	Note 1
Large Corporations Tax	prorate by rate base
Deferred GST ITCS	prorate by rate base
Deductions	
Gain on disposal of assets per financial statements	transmission assets
Capital cost allowance	transmission assets
Cumulative eligible capital deduction	Note 1
Reserves from financial statements - BOY	prorate by FTEs
Allowance for funds used during construction	Note 1
Capitalized general expense	Note 1
Capital amount expensed for tax	prorate by rate base
Disallowed Ontario apprentice credit	prorate by FTEs
Deferred financing costs	prorate by rate base
Tax reserves - BOY	Note 1
Amortization of deferred lease costs	Note 1
Deferred deregulation costs	Note 1
Deferred GST ITCS	Note 1
Note 1 - Allocation based on the actual amount relating to distribution or	
transmission business.	

(OEB)

4-Staff-34

Ref:E4-T1-S1

Please complete the table below.

***Operating and Maintenance Expenses**

	Amount	Year on Year Change	
		$	%
2002 Approved	$ 1,100,790		
2002 Actual	$ 1,996,303	$ 895,513	81.4%
2003 Actual			
2004 Actual			
2005 Actual			
2006 Actual			
2007 Actual			
2008 Actual			
2008 Actual			
2009 Actual			
2010 Actual			
2011 Actual	$ 1,592,177		
2012 Actual	$ 1,724,679	$ 132,502	8.3%
2013 Actual	$ 1,545,662	-$ 179,017	-10.4%
2014 Bridge	$ 1,805,115	$ 259,453	16.8%
2015 Test	$ 2,012,716	$ 207,601	11.5%
2016 Test	$ 2,057,066	$ 44,350	2.2%

* includes property taxes

RESPONSE:

The completed table is below.

Operating and Maintenance Expenses			
	Amount (See Note)	Year on Year $	Change %
2002 Approved	$ 1,100,790		
2002 Actual	$ 1,996,303	$ 895,513	81.4%
2003 Actual	$ 1,800,755	$ (195,548)	-9.8%
2004 Actual	$ 1,033,747	$ (767,008)	-42.6%
2005 Actual	$ 893,140	$ (140,607)	-13.6%
2006 Actual	$ 1,003,310	$ 110,170	12.3%
2007 Actual	$ 1,028,215	$ 24,905	2.5%
2008 Actual	$ 1,218,496	$ 190,281	18.5%
2009 Actual	$ 1,283,628	$ 65,132	5.3%
2010 Actual	$ 1,461,386	$ 177,758	13.8%
2011 Actual	$ 1,592,177	$ 130,791	8.9%
2012 Actual	$ 1,724,679	$ 132,502	8.3%
2013 Actual	$ 1,545,662	$ (179,017)	-10.4%
2014 Bridge	$ 1,805,115	$ 259,453	16.8%
2015 Test	$ 2,012,716	$ 207,601	11.5%
2016 Test	$ 2,057,066	$ 44,350	2.2%
Note-Includes property taxes			

(OEB)

4-Staff-35

Ref: E4-T3-S1

CNPI Tx indicates that in 2010 CNPI Tx began a multi-year program (2010-2018) to remove a 25-cycle transmission line consisting of 185 towers. OM&A costs are expected to total $975,000 over the period.

a) When was the 25-cycle system removed from service? At that time was rate base also reduced?
b) If rate base was not reduced, did CNPI Tx continue to earn through its then existing Board-approved rates a return on assets which were no longer in service?
c) Was "expensing" the tower removal cost the only accounting treatment available to CNPI Tx e.g. recording the removal costs in the plant asset account?
d) Please explain why the program does not remove the same number of towers each year, i.e. 10 annually from 2010 to 2011, then 15 annually from 2012 to 2014 and then 30 annually from 2015 to 2018?

RESPONSE:

a) The 25-cycle system was removed from service April 2009 when the Rankine generating plant was closed. The assets were not in rate base at the time because the NBV of the assets was zero.

b) The assets had a NBV of zero the last time CNPI Tx rebased, therefore they have not been earning a return through rates.

c) The 25-cycle system was not going to be replaced therefore the appropriate accounting treatment is to expense the removal costs.

d) The condition of the tower line was deteriorating. The accelerated removal program was designed to address the public safety concerns.

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(OEB)

4-Staff-36

Ref:E4-T3-S1 p.4 lines 14-16 and Table 4.3.1.1

CNPI Tx states the operating expenses increase in 2015 due to the recovery of $122,128 for Project Fortran (disallowed synchronous tie line) and indicates that it is seeking to recovery of these costs over 10 years.

a) Please confirm that the proposed OM&A for 2015 and 2016 each includes a provision of $122,128 for the recovery of the Project Fortran costs?
b) If so, please explain the appropriateness of this accounting treatment? Under which account number would the annual expense be recorded?

RESPONSE:

a) The proposed OM&A for 2015 and 2016 each includes a provision of $122,128 for the recovery of the Project Fortran costs.

b) Each phase of the development of the Fortran proposal have been detailed in Exhibit 10 Tab 1 Schedule 1of the Application. The steps taken by CNPI Tx were regulatory requirements (i.e., IESO System Impact Assessment, Hydro One Customer Impact Assessment and NYISO System Reliability and Impact Assessments) to advance the section 92 application. These investments were not discretionary investments; for without them being completed, the application could not be brought to the Board. Therefore they would be considered mandatory expenditures.

The appropriateness of this accounting treatment is outlined in the Accounting Procedures Handbook as follows.

1510 Preliminary Survey and Investigation Charges

B. This account shall also include costs of studies and analyses mandated by the Board related to plant in service. If construction results from such studies, this account shall be credited and the appropriate utility plant account

charged with an equitable portion of such study costs directly attributable to new construction. The portion of such study costs not attributable to new construction or the entire cost if construction does not result shall be charged to Account 1505, Unrecovered Plant and Regulatory Study Costs, or the appropriate operating expense account. The costs of such studies relative to plant under construction shall be included directly in Account 2055, Construction Work in Progress Electric.

1505 Unrecovered Plant and Regulatory Study Costs

A. This account shall include: (1) Non-recurring costs of studies and analyses mandated by the Board related to plants in service, transferred from Account 1510, Preliminary Survey and Investigation Charges, and not resulting in construction; and (2) when authorized by the Board, significant unrecovered costs of plant facilities where construction has been cancelled or that have been prematurely retired.

B. This account shall be credited and Account 5730, Amortization of Unrecovered Plant and Regulatory Study Costs, shall be debited over the period specified by the Board.

(OEB)

4-Staff-37

Ref:E4-T4-S1

CNPI Tx's most recent labour contract includes the following wage increases.

IBEW Local 636 (CNPI – Contract for Fort Erie, Port Colborne)

Effective June 1, 2012 – February 29, 2016

Wage increases:

June 1, 2012 - 2.8%

June 1, 2013 – 2.9%

June 1, 2014 – 3.0%

June 1, 2015 – 3.10%

a) What are the average annual increases for non-unionized employees over the same time-frame?
b) What was the rate of inflation in 2012, 2013 and what is the level of inflation forecast for 2014, 2015 and 2016?
c) What would be the reduction to the proposed 2015 and 2016 OM&A, if annual wage (union) and salary (non-union) increases were limited to 2%?

RESPONSE:

a) For CNPI non-unionized employees the average annual increases were as follows:

2012 - 3.43%
2013 - 3.44%
2014 - 4.36%
2015 - Hay Forecast: 3%
2016 - Hay Forecast: 3%

These increases are generally in line with guidance from Hay Group and include a combination of inflation adjustment, step increases and market adjustment.

b) The average rate of inflation for 2012 was 1.7% and 2.2% for 2013[1]. The level of inflation forecasted by the Bank of Canada for each of 2014, 2015 and 2016 is 2%[2].

c) The reduction to the proposed 2015 and 2016 OM&A would be approximately $10,000 and $20,000, respectively if increases were limited to 2%.

[1] http://www.ontarioenergyboard.ca/oeb/Industry/Regulatory%20Proceedings/Applications%20Before%20the%20Board/Electricity%20Distribution%20Rates/3rd%20Gen%20Stretch%20Factors
[2] http://www.bankofcanada.ca/core-functions/monetary-policy/inflation/

(OEB)

4-Staff-38

Ref:E4-T4-S1 Appendix 2-K p.1

Appendix 2-K for 2015 shows 11.78 for "number of employees (FTEs including Part-Time) and $370,789 in total salary and wages (excluding benefits). This equates to about $32,000 per FTE.

a) Does FTE stand for "full time equivalent"?
b) If not, please provide the number of full time equivalent employees?

RESPONSE:

a) Yes. FTE stands for Full Time Equivalent.

b) Not applicable.

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(OEB)

4-Staff-39

Ref:E4-T4-S2

Please complete the table below

Pension Plans				
	Contribution %		Accounting	
	employer	employee	Cash	Accrual
FortisOntario Inc. Employees Retirement Plan (DB)				
FortisOntario Supplementary Retirement Plan (DC)				
OMERS				

RESPONSE:

PENSION PLANS				
	CONTRIBUTION %		ACCOUNTING	
	Employer	Employee	Cash	Accrual
FortisOntario Inc. Employees Retirement Plan (DB)	N/A*	N/A*		X
FortisOntario Inc. Employees Retirement Plan (DC)	Up to 6.5%	Up to 6.5%		X
OMERS - On earnings up to CPP earnings limit	9%	9%		X
OMERS - On earnings over CPP earnings limit	14.60%	14.60%		X

Refer to pension plan descriptions as described within the application, Exhibit 4, Tab 4, Section 2.

* DB Plan funding based on a tri-annual actuarial valuation and is 100% employer funded. Currently only 10% of total employees remain in this closed plan.

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(OEB)

4-Staff-40

Ref:E4-T4-S1 p.3

a) What is the dollar amount provision for the "short term incentive (STI) plan payout (corporate performance only) " in CNPI Tx's proposed 2015 and 2016 OM&A?
b) Is corporate performance based on CNPI Tx results or FortisOntario results?

RESPONSE:

a) The dollar amount for the corporate performance component of the STI plan in 2015 is approximately $8,977. The dollar amount for the corporate performance component of the STI plan in 2016 is approximately $9,246.

b) FortisOntario operates various regulated utilities in Ontario which shares employees and assets between the business units creating efficiencies that are passed onto the ratepayers. FortisOntario's corporate targets are based on consolidated operating and capital expenditures, safety performance measures, customer satisfaction results and reliability targets.

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(OEB)

4-Staff-41

Ref:E4-T5-S1 p.3 & table 2N

Table 2N for 2015 shows an allocation of about $16,000 in costs to CNPI Tx from Fortis Inc.

a) Is there a signed services agreement between Fortis Inc. and CNPI Tx?
b) Are there Fortis Inc. costs that are indirectly allocated to CNPI Tx through FortisOntario? If so, what is the amount?

RESPONSE:

a) Yes. A copy of the signed services agreement between Fortis Inc. and CNPI Tx is attached.

b) There are no costs that are indirectly allocated to CNPI Tx through FortisOntario.

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SERVICES AGREEMENT

THIS AGREEMENT made as of the 6th day of February, 2015,

BETWEEN:

FORTISONTARIO INC., a corporation organized and existing under the laws of the Province of Ontario,

(hereinafter called "FON")

OF THE FIRST PART

AND:

FORTIS INC., a corporation existing under the laws of the Province of Newfoundland and Labrador,

(hereinafter called the "Fortis")

OF THE SECOND PART

WHEREAS

(a) FON is a wholly owned subsidiary of Fortis engaged in the business of generation, transmission and distribution of electric energy in the Province of Ontario;

(b) Fortis is a publicly listed company with holdings in Canada, United States, Central America and the Caribbean and is directly and/or indirectly, through its subsidiaries, experienced in the management, administration, operation and development of business entities;

(c) FON desires to have Fortis provide management support, administrative services, and advice in the operation and development of its business; and

(d) Fortis has agreed to accept such appointment and to provide the management support, administrative services and business advice requested by FON on and subject to the terms and conditions set forth in this Agreement.

NOW THEREFORE THIS AGREEMENT WITNESSETH that for and in consideration the mutual covenants, undertaking, promises and agreements contained in this Agreement and other good and valuable consideration, the Parties hereto hereby agree as follows:

1. **Definitions.** The following definitions shall apply in this Agreement unless the context clearly requires otherwise:

    1.1 **"Annual Reconciling Invoice"** has the meaning set forth in Section 3;

    1.2 **"Agreement"** means this agreement, including all schedules attached hereto, and any amendments as agreed by the Parties;

    1.3 **"Fortis"** means Fortis Inc.;

    1.4 **"FON"** means FortisOntario Inc.

    1.5 **"Party"** means either Fortis or FON, as the context requires, and **"Parties"** mean collectively Fortis and FON; and

    1.6 **"Services"** has the meaning set forth in Section 2.

2. **Interpretation.** This Agreement and its schedules constitute the entire agreement between the Parties. Any provision supplementing or amending this Agreement shall be evidenced in writing, and executed by the Parties hereto.

3. **Services.** The Fortis will perform the services listed and described in Schedule "A" as well as any other service provided by Fortis for FON (the **"Services"**);

4. **Payments.** Fortis will invoice FON quarterly for the Services and FON shall pay such invoice within 30 days of receipt. At the end of the calendar year, Fortis will provide a final reconciling invoice for the year, showing all the Services that were provided and the amounts outstanding (**"Annual Reconciling Invoice"**). FON shall pay the amount set out in the Annual Reconciling Invoice within 45 days of

receiving the invoice. In the first quarter of each year, Fortis will provide an estimate of the annual fees for the Services which FortisOntario acknowledges will be an estimate that is subject to vary.

5. **Interest.** Interest shall be payable on overdue amounts equal to the prime rate of interest, expressed as a percentage per annum, from time to time designated by the Bank of Nova Scotia as its prime rate for loans to commercial borrowers.

6. **HST.** Any amounts payable pursuant to this Agreement are exclusive of taxes, and shall be subject to any harmonized sales tax and applicable provincial sales tax.

7. **Term.** This Agreement shall remain in full force and effect until terminated by either Party upon thirty (30) days written notice to the other Party, whereupon each Party will be released from any further obligations hereunder save and except the obligation of FON to pay all outstanding fees and any fees incurred by Fortis until the time of termination of this Agreement.

8. **Dispute.** Should any dispute between the Parties arise related to matters under the Agreement, the Parties agree to first make attempts to resolve the dispute in good faith. If within thirty (30) days of a Party providing written notice of such dispute to the other Party the dispute is not resolved, the Parties shall refer the dispute to binding arbitration by a single arbitrator under the *Arbitration Act, 1991* (Ontario). If the dispute is in respect of any amounts set forth in any invoice referred to in Section 3, FON shall pay the disputed amount to Fortis until the resolution of the dispute.

9. **Notice.** Any notices, demands, requests or other communication required or permitted to be given under this Agreement shall be in writing and shall be deemed to be validly given if delivered by electronic mail, messenger, telecopier, registered mail or regular mail postage prepaid at the relevant address set forth below. Any such notice delivered in accordance with the foregoing shall be deemed delivered by electronic mail, messenger, telecopier or registered mail to have been received

on the date and at the time of delivery or, if by regular mail on the fifth business day following the date of postmark on the envelope. All notices should be addressed as follows:

If to FON:

FortisOntario Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario
L2A 5Y2

Attention: Vice President, Finance & CFO
Telephone: (905) 994-3632
Facsimile: (905) 994-2203

If to Fortis:

Fortis Inc.
Suite 1100, Fortis Place
5 Springdale Street, St. John's
P.O. Box 8837
A1B3T2

Attention: Executive Vice President, Eastern Canadian and Caribbean Operations
Telephone: (709) 737-2800
Facsimile: (709) 737-5307

10. **Waiver and Severability. Interpretation.** In the event any provision contained in this Agreement shall be deemed invalid, illegal or unenforceable by any court of competent jurisdiction, that provision shall be ineffective to the extent of such invalidity, illegality or enforceability without invalidating the remaining provisions or affecting the legality or enforceability of the remaining provisions.

11. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein.

12. **Assignment.** This Agreement shall be binding upon the Parties and their respective successors, assigns, subsidiaries and affiliates. Neither Party may assign any of its rights or obligations hereunder without the prior written consent of the other Party.

13. **Time of Essence.** Time is of the essence.

14. **Entire Agreement.** This Agreement is the entire Agreement between the Parties as to the subject matter of the Agreement and supercedes any previous or contemporaneous understandings, commitments, oral or written, as to the subject matter. No amendments to the terms and conditions of this Agreement shall be valid unless made in writing and signed by an authorized representative of each Party.

IN WITNESS WHEREOF the Parties have caused their duly authorized representatives to execute this Agreement as of the date first before written above.

FORTISONTARIO INC.

William J. Daley
President & Chief Executive Officer

Glen King
Vice President, Finance & Chief Financial Officer

FORTIS INC.

Karl W. Smith, Executive Vice President, Chief Financial Officer

Earl A. Ludlow, Executive Vice President, Eastern Canadian and Caribbean Operations

SCHEDULE "A"
FORTIS SERVICES

Fortis shall perform the following services for FON:

Strategic planning, finance and administrative services, including (i) access to capital markets, structuring of financings, and listing of Fortis shares on the Toronto Stock Exchange, (ii) employee share purchase plan and employee benefit programs, (iii) providing short and medium term financing of operations at FON (as necessary from time to time) at competitive rates, (iv) advise and assist in provision and management of legal services, internal audit, treasury and tax planning matters; and (v) advise and assist with risk management activities, marketing and placement of insurance programs; and (vi) license and allow non-exclusive use of all trademarks of FON, including right to use name Fortis.

(OEB)

4-Staff-42

Ref: E4-T8-S2

a) Please confirm whether approximately $36,000, being $180,000/5 years, is the amount included in the OM&A proposed for 2015 and 2016 for regulatory costs related to this proceeding. Please confirm whether $49,000 of the $180,000 is earmarked for intervenor costs. If applicable, please provide the correct amounts.

b) Does CNPI Tx still expect to incur regulatory costs totalling $180,000? If so, please explain given that there is a sole intervenor who is not eligible for costs.

RESPONSE:

a) A summary of one-time costs is provided in Exhibit 4, Tab 7, Schedule 1, on page 1 of 4 of the Application.

Table 4.7.1.1 One-Time Cost Summary

Intervenor costs	49,245
Legal Costs	90,000
Consultants' Costs	40,880
	180,125
Cost per year over 5 years	36,025

As shown in this Table, $49,245 has been earmarked for intervenor costs.

b) CNPI had estimated regulatory costs totalling $180,125 and has provided estimates categorized into the three cost types detailed in Table 4.7.1.1. CNPI believes it is premature to refine the cost estimate at this juncture of the proceeding simply because there is a sole intervenor who is not eligible for costs. It remains uncertain during this interrogatory phase of the proceeding what further costs may be incurred by CNPI Tx.

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(OEB)

4-Staff-43

Ref:E4-T10-S5 appendix 2-CT

The table shows $144,000 in 2015 for depreciation expenses which are described as “depreciation of asset allocations” and included in “Total depreciation for revenue requirement”.

a) Is the $144,000 in depreciation expense for those assets held by CNPI Tx’ affiliates associated with the provision of services (from FortisOntario or CNPI-FE or Fortis Inc) to CNPI Tx?
b) If so, please describe the methodology used to calculate CNPI Tx’s share of the depreciation expense. Are any of these depreciation expenses included in the amounts shown in E4-T5-S2 p.1 appendix 2-N?
c) Is any portion of these assets included in CNPI Tx’s rate base?

RESPONSE:

a) The depreciation expense is for corporate shared assets held by CNPI distribution. See response to 2-Staff-9.

b) See response to 2-Staff-9 and 4-Staff-32.
No, these depreciation expenses are not included in the amounts in Exhibit 4, Tab 5, Schedule 2, page 1, Appendix 2-N.

c) Yes, the allocated portion is in CNPI Tx’s rate base. It is not in CNPI distribution’s rate base.

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(OEB)

5-Staff-44

Ref:E5-T1-S3 appendix 2-OB

Two promissory notes (lender Fortis Ontario) are described as "third party".

a) Please confirm that this is correct or not?
b) To calculate the average long term debt rate for the test years CNPI Tx uses 4 instruments with a face value (principal) totalling $58M. The resulting weighted rate is 6.08%.

			Year	2016 Test Year						
Row	Description	Lender	Affiliated or Third-Party	Fixed or Variable-Rate?	Start Date	Term (years)	Principal ($)	Rate (%) (Note 2)	Interest ($) (Note 1)	Additional Comments, if any
1	Senior Unsecured Notes	Life Insurance Cos.	Third-Party	Fixed Rate	14-Aug-03	15	$ 30,000,000	0.07092	$ 2,127,600	
2	Debt issue costs								$ 32,028	Note 3
3	Promissory Note	FortisOntario	Third-Party	Fixed Rate	1-Jan-13		$ 20,000,000	0.0488	$ 976,000	
4	Promissory Note	FortisOntario	Third-Party	Fixed Rate	01-Jan-15		$ 8,000,000	0.0488	$ 390,400	
Total							$ 58,000,000	0.0608	$ 3,526,028	

			Year	2015 Test Year						
Row	Description	Lender	Affiliated or Third-Party	Fixed or Variable-Rate?	Start Date	Term (years)	Principal ($)	Rate (%) (Note 2)	Interest ($) (Note 1)	Additional Comments, if any
1	Senior Unsecured Notes	Life Insurance Cos.	Third-Party	Fixed Rate	14-Aug-03	15	$ 30,000,000	0.07092	$ 2,127,600	
2	Debt issue costs								$ 32,028	Note 3
3	Promissory Note	FortisOntario	Third-Party	Fixed Rate	1-Jan-13		$ 20,000,000	0.0488	$ 976,000	
4	Promissory Note	FortisOntario	Third-Party	Fixed Rate	01-Jan-15		$ 8,000,000	0.0488	$ 390,400	
Total							$ 58,000,000	0.0608	$ 3,526,028	

			Year	2014 Bridge Year						
Row	Description	Lender	Affiliated or Third-Party	Fixed or Variable-Rate?	Start Date	Term (years)	Principal ($)	Rate (%) (Note 2)	Interest ($) (Note 1)	Additional Comments, if any
1	Senior Unsecured Notes	Life Insurance Cos.	Third-Party	Fixed Rate	14-Aug-03	15	$ 30,000,000	0.07092	$ 2,127,600	
2	Debt issue costs								$ 32,028	Note 3
3	Promissory Note	FortisOntario	Third-Party	Fixed Rate	1-Jan-13		$ 20,000,000	0.0403	$ 806,000	
									$ -	
Total							$ 50,000,000	0.0593	$ 2,965,628	

At E5-T1-S1 p.2 CNPI Tx indicates that it has embedded unsecured third party debt (unsecured note) of $30M with a 7.092% interest rate and a 15 year term (August 14, 2003 to August 14, 2018).

The long term debt portion of CNPI's Tx rate base for the test years is $12.1M and $13.5M respectively.

a) Please describe CNPI Tx's overall financing arrangements and circumstances in 2003 which prompted the issuance of $30M in long term debt?
b) Please describe the methodology used to allocate debt between CNPI's business units and/or affiliates?

RESPONSE:

The two promissory notes are affiliated debt.

a) CNPI has both transmission and distribution business units. Both of these business units are regulated by the OEB with similar cost of service regulation. The OEB's setting of deemed capital structure and regulated return on equity is the same for both distributors and transmitters.

CNPI's overall capital structure and financing arrangements are determined for the company as a whole. Given the same regulatory structure for both business units, third party lenders do not distinguish between the business units.

CNPI's capital structure at the end of 2013 was as follows:

Short-term debt	$3,000,000	3.1%
Promissory notes due to parent company	20,000,000	20.3%
Third party long-term debt	30,000,000	30.5%
Total debt	**53,000,000**	**53.9%**
Shareholder's equity	**45,375,000**	**46.1%**
	$98,375,000	**100.0%**

In 2003, CNPI issued third party debt to replace maturing debt and manage the Company's capital structure in accordance with deemed capital structure. The third party debt matures in 2018 and will be replaced with third party debt at that time.

b) The determination of the allocation of debt between distribution and transmission businesses is based on the level of rate base and/or capital assets in each business unit.

(OEB)

6-Staff-45

Ref: E6-1-S1

Please complete for the years 2010, 2011, 2012 and 2013(actuals) the template which can be found on the Board's Web site at:

http://www.ontarioenergyboard.ca/OEB/Industry/Rules+and+Requirements/Reporting+and+Record+Keeping+Requirements/RRR+Documents

Revised template for reporting regulatory return (ROE) under Section RRR 2.1.5.6 - .xlsx (March 14, 2014)

RESPONSE:

The completed templates are below.

Template for Calculation of ROE on a Deemed Basis

UTILITY NAME: CNPI Tx
YEAR END DATE: December 31, 2010

Please input based on your utility in the grey cells.

Regulatory Net Income Calculation:				*Staff Comments*
Regulated net income, as per RRR 2.1.13 reconciliation		$ 1,546,976	A	*Must match regulated net income amount from 2.1.13 template. Input net surplus as positive number and net deficit as a negative number.*
Remove:				*Must match account 6115. Input deferred tax expense as a negative number and deferred tax income as a positive number.*
Future/deferred taxes			B	
Non rate regulated items			C	*As an example, non rate regulated items may include income/expenses associated with generation or CDM*
Adjustment to interest expense - for deemed debt		$ (44,757)	D (=W)	
Adjusted regulated net income		$ 1,591,733	E = A-B-C-D	
Deemed Equity Calculation:				*Staff Comments*
Rate Base:				
Cost of power			F	*Must match sum of accounts 4705 to 4751 inclusive. Input as positive number.*
Operating expenses		$ 1,461,386	G	*Must approximate sum of accounts 4505-4640, 4805-5695, 6105, 6205-6225, 6310-6415. Input as positive number.*
Total		$ 1,461,386	H = F + G	
Working capital allowance %		15%		*Must match percentage allowance in last approved CoS rate proceeding*
Total working capital allowance		$ 219,208	J	
Fixed Assets				
Opening balance - regulated fixed assets (NBV)	$ 15,851,955			*Please make the necessary adjustments to bring the fixed assets reported in the Audited Financial Statements to reflect the regulated rate base.*
Closing balance - regulated fixed assets (NBV)	$ 15,250,079			*NBV = Net Book Value*
Average regulated fixed assets	$ 15,551,017	$ 15,551,017	K	
Total rate base		**$ 15,770,225**	L = J + K	
Regulated deemed short-term debt		$ 0	M	
Regulated deemed long-term debt	50%	$ 7,885,112	N	
Regulated deemed equity	50%	$ 7,885,112	P	
		$ 15,770,225		
Regulated Rate of Return on Deemed Equity				*Staff Comments*
		20.2%	Q = E / P	
ROE% from most recent cost of service applicatio	**last approved EDR**	**9.88%**	R	*Must match approved ROE from last CoS rate proceeding*
Difference - maximum deadband 3%		**10.31%**	S = Q - R	
Interest adjustment on deemed debt:				*Staff Comments*
Regulated deemed short-term debt - as above	$ 0	0.00%		
Regulated deemed long-term debt - as above	$ 7,885,112	100.00%		
	$ 7,885,112	100.00%		
Short-term debt rate	0.00%	0.00%		*Interest rate on short-term debt from last approved CoS rate proceeding*
Long-term debt rate	7.25%	7.25%		*Interest rate on long-term debt from last approved CoS rate proceeding*
Average debt rate		7.25%		
Regulated deemed debt - as above	$ 7,885,112			
Weighted average interest rate	7.25%			
Deemed interest	$ 571,671	T		
Interest expense as per the OEB trial balance	$ 651,523	U		*Must match sum of accounts 6005-6045*
Difference	$ (79,852)	V = T - U		
Utility tax rate	43.95%			*Distributor's Board-approved tax rate from the distributor's last rate application(IRM or CoS).*
Tax effect on interest expense	$ 35,095			
Interest adjustment on deemed debt:	$ (44,757)	W		

Template for Calculation of ROE on a Deemed Basis

UTILITY NAME: CNPI Tx
YEAR END DATE: December 31, 2011

Please input based on your utility in the grey cells.

Regulatory Net Income Calculation:				*Staff Comments*
Regulated net income, as per RRR 2.1.13 reconciliation		$ 1,186,469	A	*Must match regulated net income amount from 2.1.13 template. Input net surplus as positive number and net deficit as a negative number.*
Remove:				*Must match account 6115. Input deferred tax expense as a negative number and deferred tax income as a positive number.*
Future/deferred taxes			B	
Non rate regulated items			C	*As an example, non rate regulated items may include income/expenses associated with generation or CDM*
Adjustment to interest expense - for deemed debt		$ (46,219)	D (=W)	
Adjusted regulated net income		$ 1,232,688	E = A-B-C-D	
Deemed Equity Calculation:				*Staff Comments*
Rate Base:				
Cost of power			F	*Must match sum of accounts 4705 to 4751 inclusive. Input as positive number.*
Operating expenses		$ 1,592,177	G	*Must approximate sum of accounts 4505-4640, 4805-5695, 6105, 6205-6225, 6310-6415. Input as positive number.*
Total		$ 1,592,177	H = F + G	
Working capital allowance %		15%		*Must match percentage allowance in last approved CoS rate proceeding*
Total working capital allowance		$ 238,827	J	
Fixed Assets				
Opening balance - regulated fixed assets (NBV)	$ 15,250,079			*Please make the necessary adjustments to bring the fixed assets reported in the Audited Financial Statements to reflect the regulated rate base.*
Closing balance - regulated fixed assets (NBV)	$ 14,831,496			*NBV = Net Book Value*
Average regulated fixed assets	$ 15,040,788	$ 15,040,788	K	
Total rate base		**$ 15,279,614**	L = J + K	
Regulated deemed short-term debt		$ 0	M	
Regulated deemed long-term debt	50%	$ 7,639,807	N	
Regulated deemed equity	50%	$ 7,639,807	P	
		$ 15,279,614		
Regulated Rate of Return on Deemed Equity				*Staff Comments*
		16.1%	Q = E / P	
ROE% from most recent cost of service applicatio	**last approved EDR**	**9.88%**	R	*Must match approved ROE from last CoS rate proceeding*
Difference - maximum deadband 3%		**6.26%**	S = Q - R	
Interest adjustment on deemed debt:				*Staff Comments*
Regulated deemed short-term debt - as above	$ 0	0.00%		
Regulated deemed long-term debt - as above	$ 7,639,807	100.00%		
	$ 7,639,807	100.00%		
Short-term debt rate	0.00%	0.00%		*Interest rate on short-term debt from last approved CoS rate proceeding*
Long-term debt rate	7.25%	7.25%		*Interest rate on long-term debt from last approved CoS rate proceeding*
Average debt rate		7.25%		
Regulated deemed debt - as above	$ 7,639,807			
Weighted average interest rate	7.25%			
Deemed interest	$ 553,886	T		
Interest expense as per the OEB trial balance	$ 636,346	U		*Must match sum of accounts 6005-6045*
Difference	$ (82,460)	V = T - U		
Utility tax rate	43.95%			*Distributor's Board-approved tax rate from the distributor's last rate application(IRM or CoS).*
Tax effect on interest expense	$ 36,241			
Interest adjustment on deemed debt:	$ (46,219)	W		

Template for Calculation of ROE on a Deemed Basis

UTILITY NAME: CNPI Tx
YEAR END DATE: December 31, 2012

Please input based on your utility in the grey cells.

Regulatory Net Income Calculation:				*Staff Comments*
Regulated net income, as per RRR 2.1.13 reconciliation		$ 1,500,850	A	*Must match regulated net income amount from 2.1.13 template. Input net surplus as positive number and net deficit as a negative number.*
Remove:				*Must match account 6115. Input deferred tax expense as a negative number and deferred tax income as a positive number.*
Future/deferred taxes			B	
Non rate regulated items			C	*As an example, non rate regulated items may include income/expenses associated with generation or CDM*
Adjustment to interest expense - for deemed debt		$ (32,027)	D (=W)	
Adjusted regulated net income		$ 1,532,877	E = A-B-C-D	
Deemed Equity Calculation:				*Staff Comments*
Rate Base:				
Cost of power			F	*Must match sum of accounts 4705 to 4751 inclusive. Input as positive number.*
Operating expenses		$ 1,724,679	G	*Must approximate sum of accounts 4505-4640, 4805-5695, 6105, 6205-6225, 6310-6415. Input as positive number.*
Total		$ 1,724,679	H = F + G	
Working capital allowance %		15%		*Must match percentage allowance in last approved CoS rate proceeding*
Total working capital allowance		$ 258,702	J	
Fixed Assets				
Opening balance - regulated fixed assets (NBV)	$ 14,831,496			*Please make the necessary adjustments to bring the fixed assets reported in the Audited Financial Statements to reflect the regulated rate base.*
Closing balance - regulated fixed assets (NBV)	$ 14,752,078			*NBV = Net Book Value*
Average regulated fixed assets	$ 14,791,787	$ 14,791,787	K	
Total rate base		**$ 15,050,489**	L = J + K	
Regulated deemed short-term debt		$ 0	M	
Regulated deemed long-term debt	50%	$ 7,525,244	N	
Regulated deemed equity	50%	$ 7,525,244	P	
		$ 15,050,489		
Regulated Rate of Return on Deemed Equity				*Staff Comments*
		20.4%	Q = E / P	
ROE% from most recent cost of service applicatio	**last approved EDR**	**9.88%**	R	*Must match approved ROE from last CoS rate proceeding*
Difference - maximum deadband 3%		**10.49%**	S = Q - R	
Interest adjustment on deemed debt:				*Staff Comments*
Regulated deemed short-term debt - as above	$ 0	0.00%		
Regulated deemed long-term debt - as above	$ 7,525,244	100.00%		
	$ 7,525,244	100.00%		
Short-term debt rate	0.00%	0.00%		*Interest rate on short-term debt from last approved CoS rate proceeding*
Long-term debt rate	7.25%	7.25%		*Interest rate on long-term debt from last approved CoS rate proceeding*
Average debt rate		7.25%		
Regulated deemed debt - as above	$ 7,525,244			
Weighted average interest rate	7.25%			
Deemed interest	$ 545,580	T		
Interest expense as per the OEB trial balance	$ 602,721	U		*Must match sum of accounts 6005-6045*
Difference	$ (57,141)	V = T - U		
Utility tax rate	43.95%			*Distributor's Board-approved tax rate from the distributor's last rate application(IRM or CoS).*
Tax effect on interest expense	$ 25,113			
Interest adjustment on deemed debt:	$ (32,027)	W		

Template for Calculation of ROE on a Deemed Basis

UTILITY NAME: CNPI Tx
YEAR END DATE: December 31, 2013

Please input based on your utility in the grey cells.

Regulatory Net Income Calculation:				*Staff Comments*
Regulated net income, as per RRR 2.1.13 reconciliation		$ 1,411,944	A	*Must match regulated net income amount from 2.1.13 template. Input net surplus as positive number and net deficit as a negative number.*
Remove:				*Must match account 6115. Input deferred tax expense as a negative number and deferred tax income as a positive number.*
Future/deferred taxes			B	
Non rate regulated items			C	*As an example, non rate regulated items may include income/expenses associated with generation or CDM*
Adjustment to interest expense - for deemed debt		$ 31,356	D (=W)	
Adjusted regulated net income		$ 1,380,588	E = A-B-C-D	
Deemed Equity Calculation:				*Staff Comments*
Rate Base:				
Cost of power			F	*Must match sum of accounts 4705 to 4751 inclusive. Input as positive number.*
Operating expenses		$ 1,545,662	G	*Must approximate sum of accounts 4505-4640, 4805-5695, 6105, 6205-6225, 6310-6415. Input as positive number.*
Total		$ 1,545,662	H = F + G	
Working capital allowance %		15%		*Must match percentage allowance in last approved CoS rate proceeding*
Total working capital allowance		$ 231,849	J	
Fixed Assets				
Opening balance - regulated fixed assets (NBV)	$ 14,752,078			*Please make the necessary adjustments to bring the fixed assets reported in the Audited Financial Statements to reflect the regulated rate base.*
Closing balance - regulated fixed assets (NBV)	$ 17,146,324			*NBV = Net Book Value*
Average regulated fixed assets	$ 15,949,201	$ 15,949,201	K	
Total rate base		**$ 16,181,050**	L = J + K	
Regulated deemed short-term debt		$ 0	M	
Regulated deemed long-term debt	50%	$ 8,090,525	N	
Regulated deemed equity	50%	$ 8,090,525	P	
		$ 16,181,050		
Regulated Rate of Return on Deemed Equity				*Staff Comments*
		17.1%	Q = E / P	
ROE% from most recent cost of service applicatio	**last approved EDR**	**9.88%**	R	*Must match approved ROE from last CoS rate proceeding*
Difference - maximum deadband 3%		**7.18%**	S = Q - R	
Interest adjustment on deemed debt:				*Staff Comments*
Regulated deemed short-term debt - as above	$ 0	0.00%		
Regulated deemed long-term debt - as above	$ 8,090,525	100.00%		
	$ 8,090,525	100.00%		
Short-term debt rate	0.00%	0.00%		*Interest rate on short-term debt from last approved CoS rate proceeding*
Long-term debt rate	7.25%	7.25%		*Interest rate on long-term debt from last approved CoS rate proceeding*
Average debt rate		7.25%		
Regulated deemed debt - as above	$ 8,090,525			
Weighted average interest rate	7.25%			
Deemed interest	$ 586,563	T		
Interest expense as per the OEB trial balance	$ 530,621	U		*Must match sum of accounts 6005-6045*
Difference	$ 55,942	V = T - U		
Utility tax rate	43.95%			*Distributor's Board-approved tax rate from the distributor's last rate application(IRM or CoS).*
Tax effect on interest expense	$ (24,587)			
Interest adjustment on deemed debt:	$ 31,356	W		

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(OEB)

10-Staff-46
Ref:E10-T1-S1 p. 7-13
CNPI Tx notes that Board issued its Decision on the Fortran project on March 29, 2010 in which it denied leave to construct and CNPI Tx further states “According to the Board the synchronous interconnection was not justified on the basis of the need to improve the reliability of supply to the Fort Erie load. Further, the Board concluded that the synchronous interconnection could not be justified on the basis of achieving economic benefits. Accordingly, the Board did not find that the synchronous interconnection proposed by CNPI Tx was in the "public interest", the consideration required by subsection 96(1) of the OEB Act when determining whether to grant leave to construct.”

CNPI Tx states that the Board made no finding on the prudence of CNPI Tx's proposal for the synchronous interconnection, since a prudence analysis in a rate proceeding is not required for a public interest analysis in a leave to construct proceeding. Therefore, the Board's denial of CNPI Tx’s Leave to Construct Application was in no way decisive on the prudence of CNPI Tx’s synchronous interconnection proposal or the costs associated with that proposal.

CNPI Tx also states, at p.7, that under the circumstances that were known at the time it made decisions to proceed with the project, these preliminary costs were prudently incurred.”

a) Is it CNPI Tx’s view that costs incurred on projects that the Board found to be neither economic nor in the public interest can be considered for recovery from ratepayers on the basis that they were prudent?
b) If so, please list and elaborate on the circumstances and features of the Fortran proposal and associated spending which would meet a test of prudence.

RESPONSE:

a) The Board staff interrogatory is premised with a retrospective view of the CNPI Tx investment with the benefit of have the Board’s finding made subsequent to the investment and application by CNPI Tx.

The CNPI Tx investment in the Fortran Project, which is seeks to recover in this Application, was made by CNPI Tx on a prospective basis and was made on the basis of each successive positive stage during the development of the Project.

Of course, had CNPI Tx known or could foretell the final outcome of the section 92 application as does Board staff with the benefit of the Board's Decision in the matter, it would not have proceeded and made that investment.

It is CNPI Tx's assertion that any review of prudence ought to be done so on the basis of what was known at the time of the investment; not a retrospective review based on the Board's decision in the matter.

It is CNPI Tx's view, as expressed in Exhibit 10, Tab 1, Schedule 1, that each successive stage of developing the project and submitting the Section 92 Application was prudently executed based on the information available at that time.

As explained and detailed in chronological format beginning on page 3 of Exhibit 10, Tab 1, Schedule 1, of the Application, CNPI Tx undertook a prudent and deliberate investigation and ultimate development of the project to create a synchronous interconnection between the IESO controlled grid and the NYISO transmission system. CNPI Tx has, in the Application, detailed how, only after positive results of a particular stage of the development process, it proceeded with the next step to complete the necessary regulatory milestones that were required to bring the section 92 application before the Board. During this development process, CNPI Tx could only rely on the outcomes of each milestone in the process. As positive results were being experienced CNPI Tx proceeded prudently with each successive phase of the development.

b) An integral part of CNPI Tx's transmission network is the international power line ("IPL") between the IESO controlled grid and the NYISO.

The significance of transmission system interconnections of synchronous interconnection between neighbouring transmission jurisdictions is generally well accepted.

As early as August 2003, CNPI Tx recognized the potential of the IPL and retained ACRES International[1] to undertake an asset study and business case for a synchronous interconnection upgrade of the IPL. CNPI Tx believes that as a Licenced Transmitter it is prudent to evaluate its assets and propose developments which will enhance the reliability and integrity of the transmission system in Ontario[2].

Each of the of the phases of the development of the Fortran proposal have been detailed in Exhibit 10, Tab 1, Schedule 1, of the Application. The steps taken by CNPI Tx were regulatory requirements (i.e., IESO System Impact Assessment, Hydro One Customer Impact Assessment and NYISO System Reliability and Impact Assessments) to advance the section 92 application. These investments were not discretionary investments; for without them being completed the application could not be brought to the Board.

The circumstances and features of the Fortran proposal and associated spending which would meet a test of prudence are listed and elaborated upon in Exhibit 10, Tab 1, Schedule 1, of the Application.

[1] The Application, EB-2014-0204, Exhibit 10 Tab 1 Schedule 1 page 3
[2] Transmission System Code, Section 3B.1

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(OEB)

10-Staff-47

Ref: E10-T1-S1 p.14

CNPI Tx has recorded $1,221,281 of costs incurred to bring forward a Leave to Construct Application in CWIP. CNPI Tx is now requesting that these costs be recovered through amortization over a 10 year period.

a) From an accounting perspective, please explain why the $1.2 million can still be recorded as an asset in CWIP and be amortized over a 10 year period when the Board denied the leave to construct in EB-2009-0283. Please explain why the amount was not expensed once the Board denied the leave to construct and CNPI Tx would not be proceeding to build any assets.

RESPONSE:

CNPI believes the costs were prudently incurred and should be recovered. To lessen the impact to customers the company is asking that the costs be recovered over an extended period of time (i.e. 10 years) without any associated cost of capital or interest improvement. The use of the CWIP account is a mechanism to ensure that only the costs are recovered.

CNPI did not expense the amount as the Board denied the leave to construct project but did not deny the prudency of the costs. As explained in 10-Staff-46, CNPI believes that the costs where prudently incurred and are seeking to recover these pre-development costs. When incurring the costs, the company was not aware that the Board would have denied the leave to construct application. The expenditures were incurred with the belief that the project represented a net benefit to the transmission system and the IESO-controlled grid.

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(OEB)

10-Staff-48

Ref:E10-T1-S1 p. 13-14

Regarding the Fortran project, referencing a meeting held with senior IESO staff, CNPI Tx indicates that the IESO gave CNPI Tx a positive indication that the IESO had good reason to believe that proceeding with the preliminary work was prudent.

> Further, on July 9, 2008, senior staff with the IESO hosted a meeting with CNPI Tx representatives to discuss the project. During that meeting, IESO staff gave CNPI Tx a positive indication that the IESO had good reason to believe that proceeding with the preliminary work on the project was prudent.

a) Does CNPI have minutes from that meeting? If so please provide them?
b) Please elaborate on the extent and nature of the "positive indication" given to CNPI as to the prudence of proceeding with the project.
c) Does CNPI know whether the IESO's definition or understanding of "prudence" is the same as what is understood by the Board? If so, please provide some evidence as to the basis of this knowledge.

RESPONSE:

(a) and (b)

CNPI was unable to locate minutes from that meeting. However, we attach a letter from the IESO to CNPI dated October 26, 2009 regarding the EB-2009-0283 leave to construct proceeding. Specifically, the IESO provided its responses to Board staff's interrogatories for CNPI to incorporate into its own interrogatory responses.

By way of background, in CNPI's leave to construct application in EB-2009-0283, CNPI wrote that the project[1] was driven by the requirements of the Transmission

[1] Please note that the "project" in EB-2009-0283 was a synchronous tie line, unlike the IPL Refurbishment Project in the current proceeding, which is a non-synchronous line to replace the existing non-synchronous line that has reached the end of its useful life.

System Code, which in turn required the CNP transmission system to satisfy requirements found within the reliability standards of the North American Electric Reliability Corporation ("NERC"), as well as to meet the standards of good utility practice. CNPI stated in that proceeding:

> *".... the CNP Transmission System does not have N-1 contingency at present. By not having N-1 contingency, the system configuration is not in accordance with NERC standards or the Code. In support of its obligations to comply with the Code and NERC standards, CNP has initiated the Project to establish N-1 contingency for its system by upgrading its New York interconnection so as to establish a parallel and continuous supply source."* [pages 3-4 of CNPI's application]

Board staff's interrogatory 1(iii) in EB-2009-0283 was as follows:

> *"Does the IESO agree with CNP's submission that its transmission system should be able to withstand the N-1 contingency criterion and with CNP's response to (i) and (ii) above? Please provide verification from the IESO, with appropriate explanations."*

As set out in the attached letter from the IESO, it wrote the following in response to this interrogatory:

> *"While the CNP transmission system is not currently classified as Bulk Electricity System from a NERC viewpoint, the IESO agrees with CNP's submission that the CNP transmission system should be able to withstand the N-1 contingency criterion, as a fundamental principle of good utility practice, and also agrees with CNP's response to 1.0(i)."*

Further, the IESO also wrote the following in its letter:

"The IESO agrees with CNP's response to 1.0(iv). The IESO would like to emphasize on the potential of the Project to enhance the overall Ontario import/export capability, hence provide:

- *increased market activity and efficiency,*
- *flexibility to address situations of surplus baseload and/or renewable generation, and*
- *flexibility to import during periods of supply shortages."*

It is apparent from the attached IESO letter, that the IESO supported the project on the basis of good utility practice, as well as the potential of the project to enhance the overall Ontario import/export capability. The same sentiment was expressed by the IESO to CNPI in the meeting referred to referenced in the interrogatory. Accordingly, this evidence supports the prudence of CNPI's decision at that time to proceed with the pre-development costs associated with the project.

(c) CNPI submits that the IESO is extremely sophisticated and experienced in Ontario Energy Board regulatory matters. Therefore, CNPI expects that the IESO understands the concept of prudence as it pertains to a rate application.

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October 26, 2009

Mr. Angus Orford
Vice President, Operations
Canadian Niagara Power Inc.
1130 Bertie Street
P.O. Box 1218
Fort Erie, Ontario L2A 5Y2

Dear Mr. Orford:

Re: Canadian Niagara Power Inc.'s Application for Leave to Construct Transmission Facilities in and around Niagara Falls and Fort Erie EB-009-0283 (the "Application")

IESO's Response to Board Staff Interrogatories

The IESO acknowledges that, in connection with the Application, Ontario Energy Board Staff's interrogatories to Canadian Niagara Power Inc. ("CNP") include a number of questions and requests where verification or supplementary explanations from the IESO are sought.

Further to your request for IESO cooperation in providing such responses to the relevant Board Staff interrogatories, and having reviewed the relevant interrogatory responses that you provided for our consideration on October 23, 2009, the IESO responds as follows:

1.0 Project Need

(iii) While the CNP transmission system is not currently classified as Bulk Electricity System from a NERC viewpoint, the IESO agrees with CNP's submission that the CNP transmission system should be able to withstand the N-1 contingency criterion, as a fundamental principle of good utility practice, and also agrees with CNP's response to 1.0(i).

(v) The IESO agrees with CNP's response to 1.0(iv). The IESO would like to emphasize on the potential of the Project to enhance the overall Ontario import/export capability, hence provide:

- increased market activity and efficiency,
- flexibility to address situations of surplus baseload and/or renewable generation, and
- flexibility to import during periods of supply shortages.

(xii) The IESO is not in a position to comment on the criteria used by CNP to establish the need for reliability improvement, or on the application of those criteria in determining the adequacy of CNP's transmission system. However, in the IESO's opinion, CNP's responses to 1.0(viii) and 1.0(ix) appear reasonable.

(xiv) As stated under 1.0(iii), the CNP transmission system is not currently classified as Bulk Electricity System under NERC, or as Bulk Power System under NPCC, and it is within the IESO's load restoration criteria. However, as also stated under 1.0(iii) and 1.0(v), the IESO agrees with the need for CNP system enhancements, given CNP's responses to 1.0(i) and 1.0(iv). The IESO is in no position to determine the classification of the Project.

3.0 Project Economics and Cost Responsibility

(v) The IESO agrees with CNP's explanation in 3.0(v).

(vi) The IESO agrees with the description of on-peak transfer capabilities, as summarized in CNP's response to 3.0(vi). The IESO is not aware of any studies on off-peak transfer capabilities between Ontario and New York, hence it cannot comment on the Ontario to New York transfer capability improvement during off-peak periods.

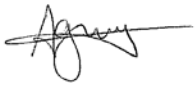
(viii) The IESO expresses no opinion on the CDM guideline itself, nor the methodology used by CNP to determine the value of the increased interconnection capability associated with the Project. In its resource adequacy/planning studies, the IESO does not assume reliance on any interconnection support from its neighbours.

(ix) The IESO is not in a position to recommend a methodology to determine the economic value of the additional interconnection capability.

4.0 System Impact Assessment (SIA)

(iii) The IESO confirms that it is supportive of the Project as now proposed and agrees with the description of outstanding requirements provided by CNP in its response to 4.0(iii).

Yours truly,



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(OEB)

10-Staff-49

Ref:E10-T1-S1

a) Is it correct that CNPI filed an application (EB-2010-0159) with the Board on April 9, 2010 requesting approval to establish a deferral account to record Preliminary Costs associated with transmission facilities that were subject of the leave to contract application EB-2009-0283; and that the Board did not approve the request?

b) Please list the reasons for the Board's findings as found in the EB-2010-0159 decision and explain why they would or would not apply in the instant proceeding.

RESPONSE:

a) & b):

On July 16, 2009, CNPI filed an application with the Board under section 92 of the *Ontario Energy Board Act, 1998* (the "OEB Act") for an order granting leave to construct a synchronous intertie project (a different project from the IPL replacement project) (the "SIP"). On March 29, 2010, the Board issued a decision in which it denied CNPI leave to construct the SIP.

CNPI recorded its preliminary costs for the SIP in Account 2055 (Construction Work in Progress), since it had a reasonable expectation that the leave to construct application would be approved, and its preliminary costs would be capitalized with the other development and construction costs related to the SIP. Because the SIP could not proceed and Account 2055 contemplated the completion of work-in-progress, CNPI believed that it was appropriate to establish a new deferral account to record its preliminary costs. CNPI's request for a deferral account was an accounting housekeeping matter, rather than a request to establish a deferral account to record new costs, since its preliminary costs were already recorded in Account 2055. In CNPI's June 22, 2010 submission in EB-2010-0159, it wrote, "CNPI would have no objection to the

Board ordering it to leave the Preliminary Costs in Account 2055 for future disposition at its next transmission rate application." We note that Board staff proposed in its submission, in the event that the Board denied CNPI's request for a deferral account, that the preliminary costs be recorded in Account 1508, "...in Board staff's view, if the Board decides that CNPI should be allowed to record its preliminary costs in a deferral account, CNPI can transfer the expenses to deferral account 1508 under a separate sub-account in the Uniform System of Accounts and seek disposition in its next rates rebasing application."

The Board denied CNPI's request for a new deferral account, however:

- the Board made no comment on the recoverability of the preliminary costs from Account 2055 in a future rate application; and
- the Board made no comment on the prudence of CNPI's preliminary costs.

The basis for the Board's decision was that, in light of the magnitude of the cost of the SIP, CNPI should have applied to the Board for a deferral account prior to making any preliminary expenditures. Nevertheless, CNPI's preliminary costs remain recorded in Account 2055, and the Board's decision in EB-2010-0159 does not preclude the recovery of those costs.