

IN THE MATTER OF the *Ontario Energy Board Act 1998*,
S.O. 1998, c.15, (Schedule B);

AND IN THE MATTER OF an application by Hydro One
Networks Inc. for an accounting order to establish a deferral
account.

**SUBMISSION OF
CANADIAN MANUFACTURERS & EXPORTERS (“CME”)**

February 12, 2015

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A. INTRODUCTION

1. Hydro One Networks Inc. ("**Hydro One**") seeks an accounting order to establish a new deferral account to be known as the "North West Bulk Transmission Line Deferral Account" (the "**NWBTD**A"). The purpose of the NWBTDA is to record OM&A costs incurred in connection with the performance of preliminary design/engineering, cost estimation, public consultation, routing and siting and environmental assessment preparation work (the "**Predevelopment OM&A Costs**") required for the North West Bulk Transmission Line Project (the "**NWBTL Project**").
2. While the development of the NWBTL Project is a condition of Hydro One's Electricity Transmission Licence, the scope and timing of the NWBTL Project is contingent on the "recommendations of the Ontario Power Authority (now the Independent Electricity System Operator (the "IESO")) made in the course of the Ontario Power Authority's transmission planning activities."¹
3. By letter dated October 1, 2014, the IESO directed Hydro One to initiate development of the NWBTL Project. Immediately on receipt of the IESO's letter, Hydro One applied for deferral account protection with respect to the Predevelopment OM&A Costs notwithstanding that it is unable to provide a credible estimate of the Predevelopment OM&A Costs which it is likely incur with respect to the tasks which the IESO's letter requires it to perform. Hydro One relies on its "belief" that the amounts to be recorded in the NWBTDA will exceed \$5 Million² to support its request for deferral account protection
4. Hydro One also states that it will cease not proceed with the work which it is directed to undertake by the IESO if the deferral account relief which seeks is not granted.³
5. Predevelopment OM&A Costs were not included in Hydro One's 2015-2016 transmission rates revenue requirement (EB-2014-0140). This is understandable because, at the time of filing that application, Hydro One would have been, as it is now, unable to provide any credible estimate of the Predevelopment OM&A Costs to be incurred in each of 2015 and 2016.
6. To obtain deferral account relief, any electricity transmitter must present credible evidence to satisfy the Board's three eligibility criteria namely: Causation, Materiality and

¹ ET-2003-0035, as amended most recently on February 9, 2014, at paragraph 19. 6.

² Response to Board Staff Interrogatory No.. 1, Exhibit 1, Tab 1, Schedule 1, pg. 2, ln 12.

³ Response to Board Staff Interrogatory No.. 1, Exhibit 1, Tab 1, Schedule 1, pg. 2, ln 35

Prudence.⁴ The issue in this proceeding is whether the evidence on which Hydro One relies is sufficient to discharge this burden.

B. CAUSATION

7. We have had the benefit of reviewing the draft submissions of counsel on behalf of the School Energy Coalition (“SEC”) in this matter. With respect to the issue of causation, SEC refers to Hydro One’s rationale for excluding capital costs associated with the NWBTL Project from its 2015-2016 Transmission Rates application.

8. We agree with Counsel for SEC that Hydro One knew before it received the IESO’s letter on October 1, 2014 that it would likely incur some predevelopment OM&A costs during the test period. However, we can find no basis in the evidence that, at the time it filed its 2015-2016 Transmission Rates application in September 2014, Hydro One was in a position to reasonably forecast Predevelopment OM&A Costs. Indeed in responses to interrogatories filed in these proceedings six months later, Hydro One remains unable to provide such a forecast

9. Put another way, had Hydro One proposed in its 2015-2016 Transmission Rates application a deferral account such as the NWBTA, such a proposal would have been rejected on materiality grounds.

10. Given the foregoing, while we share the concerns expressed by SEC, we do not believe that evidence in this proceeding provides any grounds to dispute the proposition that the Predevelopment OM&A Costs are outside of the base on which Hydro One’s 2015 -2016 rates were established.

C. MATERIALITY HAS NOT YET BEEN ESTABLISHED

11. There are two components to the materiality criterion used to establish eligibility for the creation of a new deferral/variance account⁵. Forecast amounts must:

- i. Exceed the Board-defined materiality threshold, which, in the case of Hydro One, amounts to \$3 Million in every relevant year⁶; and,
- ii. Have a significant influence on the operation of the transmitter.

⁴ Filing Requirements for Electricity Transmission Applications, Ontario Energy Board, January 2014, at pg. 25.

⁵ Filing Requirements for Electricity Transmission Applications, Ontario Energy Board, January 2014, at pg. 25

⁶ Filing Requirements for Electricity Transmission Applications, Ontario Energy Board, January 2014, at pg. 7

12. Amounts which do not satisfy the above referenced criteria "must be expensed in the normal course and addressed through organizational productivity improvements."⁷

13. Hydro One maintains that it is unable to estimate the Predevelopment OM&A Costs that would be recorded in the NWBTDA.⁸ It offers no indication of what portion of this amount will be incurred in 2015 or in 2016 and merely expresses a belief that Predevelopment OM&A Costs will exceed \$5 million.⁹ An unsubstantiated belief is insufficient to support a determination of materiality.

14. With respect to the impact of the Predevelopment OM&A Costs on Hydro One's operations, Hydro One states that the Predevelopment OM&A Costs will "not have a materially adverse effect on Hydro One's financial risk profile or financial metrics" and offers no reasonable basis for the Board to reach a conclusion that the Predevelopment OM&A Costs will have a "significant influence" on Hydro One's operations. Hydro One's failure to establish materiality on this basis is also difficult to reconcile with Hydro One's suggestion that it would refuse undertake predevelopment OM&A work in the absence of the NWBTDA.

15. Given the foregoing, we submit that Hydro One has not established that the Predevelopment OM&A Costs meet the materiality criterion for the establishment of a new deferral account. Until the materiality of the Predevelopment OM&A Costs can be demonstrated, these costs should be expensed in the normal course and addressed through organizational productivity improvements

D. PRUDENCE

16. It is impossible for the Board to evaluate prudence in even a preliminary way in the absence of credible estimates establishing that the amount of the Predevelopment OM&A Costs which are likely to be incurred will exceed \$3 million in each of the years 2015 and 2016

E. DISPOSITION OF THE APPLICATION

17. For the foregoing reasons, this application for deferral account relief is premature and should either be denied or adjourned until such time as Hydro One is able to provide a reasonably detailed and credible estimate of the types and amounts of Predevelopment OM&A

⁷⁷ Filing Requirements for Electricity Transmission Applications, Ontario Energy Board, January 2014, at pg. 7

⁸ Response to Board Staff Interrogatory No.. 1, Exhibit 1, Tab 1, Schedule 1, pg. 1, ln 41-43.

⁹ Response to Board Staff Interrogatory No.. 5, Exhibit 1, Tab 1, Schedule 1, pg. 2, ln 12.

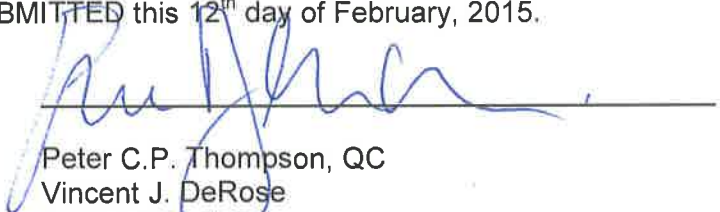
Costs which it is likely to incur in each of 2015 and 2016.. It is impossible for the Board to evaluate materiality or conduct a preliminary examination of prudence before such evidence has been tendered.

18. The Board should not be influenced by Hydro One's stated refusal continue with the development of the NWBTL Project as directed by IESO if the NWBTDA is not established at this time. Under its Electricity Transmission Licence, Hydro One is obliged to develop and seek approvals for the NWBTL Project. This obligation is not conditional on prior Board approval of the deferral account relief that Hydro One seeks in this application.

F. COSTS

19. CME requests that it be awarded 100% of its reasonably incurred costs in connection with this matter.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 12th day of February, 2015.



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