

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.

Submissions of
Energy Probe Research Foundation

February 12, 2015

**Application by Hydro One for an Accounting Order to establish a
Deferral Account related to development costs of the
Northwest Bulk Transmission Project**

Submissions of Energy Probe

How these Matters Came before the Board

Hydro One Networks Inc. (“Hydro One”) filed an application with the Ontario Energy Board, (the “Board”) on October 3, 2014 for an accounting order under section 78.1 of the Ontario Energy Board Act, 1998, S.O. 1998, c. 15 (Schedule B). The application seeks approval to establish a deferral account, effective October 1, 2014, for the purpose of recording expenses relating to the North West Bulk Transmission Line Project (“NWBTL Project”), which Hydro One is developing pursuant to a condition of its licence.

In the EB-2014-0311 Application Hydro One indicated that it will be undertaking preliminary design/engineering, cost estimation, public engagement/consultation, routing and siting, and environmental assessment preparation work associated with the NWBTL Project before the costs qualify to be recorded in transmission Construction Work In Progress (“CWIP”).

In the Application Hydro One indicated these OM&A costs are not included in Hydro One Transmission’s current 2015 and 2016 transmission revenue requirements (EB-2014-0140), and as such are outside the base upon which rates were derived. The intention is that these costs, incurred by Hydro One to facilitate the NWBTL Project, would be recorded in a deferral account and recovered in future through the Ontario Uniform Transmission Rates.

Background -2015-16 Rates EB-2014-0140 and Settlement Agreement

The Board's approval of Hydro One's 2015-2016 Transmission Revenue Requirement and Rates application was based on a comprehensive Settlement Agreement reached between Hydro One representatives of ratepayer groups (including Energy Probe) during the summer of 2014. The Agreement included a substantial OM&A envelope¹:

For purposes of reaching a settlement, the parties agree to reduce spending levels in each of the test years by \$20.0M (from \$452.0M to \$432.0M in 2015 and from \$457.4M to \$437.4M in 2016). These final settled amounts compare to the 2013 actual OM&A spending level of \$431.6M. The parties recognize the need for OM&A constraint and agree to hold the OM&A expenditures relatively flat in 2015 and 2016, compared to the actual 2013 level.

Causation- Foreseeable Expense

Hydro One's own 2015-2016 pre-application material, which was provided to intervenors in early summer, indicated that there could be significant NWBT Project development costs undertaken in during the test period.²

In EB-2014-0140 Hydro One recognizes specifically that the NWBTL could require significant capital expenditures in the test years.

Overall Capital expenditures remain flat in 2015 and decline over the 2016 to 2019 period. The four large Development projects referred to above include the East-West Tie Expansion, TransCanada's Energy East Pipeline project, the Northwest Bulk Transmission Line project and the GTA Reactors project. While these projects could require significant capital expenditures in the test years, the in-service dates for these projects will be beyond the test years so there will be no impact on the rates requested in this application.³

The logical corollary is that Hydro One knew that OM&A development costs for the Northwest Bulk Transmission Line Project would also be incurred in the 2015-16 test years.

¹ EB-2014-0140 Application Settlement Agreement Evidence Section II Page 9

² Interrogatory Response Board Staff #1 (I-1-1,p.1)

³ EB-2014-0140, Hydro One Prefiled Evidence, A-16-8, p.2

Accordingly, Energy Probe submits these costs were reasonably foreseeable at the time 2015-16 Rates were set. This is confirmed in the response to Board Staff Interrogatory.⁴

Accordingly, Energy Probe questions Hydro One's position that the October 1, 2014 Letter from OPA advising Hydro One to initiate NWBT development work is the "trigger" for the need for the deferral account, or this was the first time it knew that these development costs would likely need to be incurred during the 2015-2016 period.

Materiality and Treatment of NWBT Project Development OM&A Costs

Hydro One is a transmitter with revenue over \$200 million and according to the Filing Guidelines, its materiality threshold is \$3 million per year. In response to Interrogatories, Hydro One states NWBT Project development costs will exceed \$5 million, but it has neither provided a reasonable estimate of the costs in each of the test years, nor in which years these costs will occur.⁵ Accordingly there is no evidence that the threshold may be exceeded in *both* test years.

As to expensing or capitalizing the development costs⁶:

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

Hydro One's position is that it does not know the costs in detail. However, the preferred route will be examined as part of alternatives. Accordingly in our view, it is not appropriate for Hydro One to state at this point that none of the OM&A development costs for the NWBT Project will be capitalized and included in CWIP and recovered when the assets are placed in service.

⁴ Interrogatory Response Board Staff #2 (I-1-2,p.1)

⁵ Interrogatory Response Board Staff #1 (I-1-1,)

⁶ Interrogatory Response Board Staff #2 (I-1-2)

Prudence of Costs

Energy Probe takes no issue in principle with the prudence of the costs for the NWBT Project. Our concern is the fact that these initial development costs to the extent any of these are not to be included in CWIP, should be covered within the existing Revenue Requirement and Rates.

Summary

As confirmed by Hydro One⁷, at no point during the ADR negotiation process Hydro One informed parties that it intended to bring this or a similar application. At best this was a significant omission, at worst a tactic to exceed the negotiated OM&A envelope that formed an important component of the Settlement Agreement that lead to approval of Hydro One's 2015-16 Revenue Requirement and Rates in EB-2014-0140. As noted earlier, this envelope is \$432 million in 2015 and \$437 million in 2016 and in our view can accommodate the proposed \$5 million in NWBT Project OM&A (if none of this is included in CWIP).

For all of the above reasons, Energy Probe requests that the Board deny Hydro One's Application.

Costs

Energy Probe has been efficient in its response to this Application and requests an award of 100% of its legitimately incurred costs.

All of which is Respectfully Submitted this 12th day of February 2015.

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Consultants to Energy Probe Research Foundation**

⁷ Interrogatory Response Energy Probe (I-4-1 (c),p.1)