



February 12, 2015

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

Re: Hydro One Networks Inc. Northwest Bulk Transmission Line Deferral Account  
AMPCO's Final Submissions  
Board File No. EB-2014-0311

Dear Ms. Walli:

Attached please find AMPCO's final submissions in the above proceeding.

Please do not hesitate to contact me if you have any questions or require further information.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "Adam White", with a long horizontal flourish extending to the right.

Adam White  
President  
Association of Major Power Consumers in Ontario

Copy to: Hydro One Networks Inc.

**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.

- Hydro One Networks Inc. (“Hydro One”) filed an application October 3, 2014 applying to the Ontario Energy Board (“the Board”) for an Accounting Order authorizing Hydro One to establish a new deferral account, “North West Bulk Transmission Line Deferral Account (“NWBTLDA”)”, 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. The proposed effective date of the proposed deferral account is October 1, 2014.
- In the 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”).
- Hydro One indicates these OM&A costs were not included in Hydro One Transmission’s 2014 rates (EB-2012-0031) or the current 2015 and proposed 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 recovered through the Ontario Uniform Transmission Rates. Hydro One proposes that the account will be updated monthly and interest applied consistent with the Board-approved rate. Balances will be reported to the Board as part of the quarterly reporting process. Hydro One will request recovery of any balance in the NWBTLDA as part of a future transmission rate filing.
- Hydro One confirms it first became aware of the NWBTL Project as a priority project with the release of the 2013 Long-Term Energy Plan (LTEP) (December 2013).
- In December 2013, Hydro One received a directive from the Ministry of Energy to begin the development phase of the project and as a result the Board included this request as a condition to Hydro One Transmission’s license in January 2014 (EB-2013-0437), stating:

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

The OPA issued Hydro One a letter on October 1, 2014 regarding need and scope and identified two areas of adequacy concerns with the existing West of Thunder Bay transmission system, and advised that “due to the long lead time required for new transmission line projects, it is typical to initiate development work in order to better scope the transmission option, and to shorten the subsequent lead time required if the project is selected.” The letter also indicated that the required in-service date for the NWBTL Project could be as early as 2020. Hydro One filed this application 2 days after receipt of the OPA’s letter.

- The Board’s Filing Requirements state that in the event an applicant seeks an accounting order to establish a new deferral/variance account, the following eligibility criteria must be met: **Causation, Materiality and Prudence.**<sup>1</sup>

**Causation:**

- The Board’s Filing Requirements state that “The forecasted expense must be clearly outside of the base upon which rates were derived.”
- Hydro One confirms that expenditures relating to the North West Bulk Transmission Line (“NWBTL”) Project were not included in Hydro One’s 2015-2016 Transmission Rates Application, EB-2014-0140.
- Hydro One indicates for this project, the work direction and determination of the project’s scope and timing were provided to Hydro One after its Business Planning process was completed. Therefore, the plan that was used to construct the proposed 2015-2016 Transmission rates revenue requirement application, did not include an allowance for these forecast costs in either test years.
- Hydro One confirms it did not provide notice to signatories of the EB-2014-0140 Settlement Agreement before that application was filed with the Board, that it would be bring this (or a similar) application before this Board for a Deferral Account to record development work conducted in 2015 and/or 2016 relating to the North West Bulk Transmission Line. Hydro One states that there are no references to the North West Bulk Transmission Line in either of Hydro One’s EB-2012-0031 or EB-2014-0140 rate filing applications.<sup>2</sup>
- AMPCO has reviewed the draft submissions of School Energy Coalition (SEC) and supports SEC’s position that the forecasted development costs were reasonably foreseeable when parties entered into the settlement agreement for the 2015-2016 transmission application in September 2014. In AMPCO’s view the December 2013 letter from the Minister signals that the need to incur development costs for the project is imminent and it is reasonable to conclude that work would be initiated during the 2015-2016 test period. AMPCO also concludes it is not probable that the October 1, 2014 letter from the OPA is the first time Hydro One is being advised of these development costs.

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<sup>1</sup> Board Filing Requirements For Electricity Transmission Applications dated January 2, 2014 Page 25

<sup>2</sup> SEC IR#3

- Hydro One also notes the letter from the Minister of Energy requested that Hydro One and Infrastructure Ontario (“IO”) work collaboratively to support the development phase of the NWBTL project and that Hydro One is currently in discussion with IO to develop the Terms and Conditions for this work. Hydro One indicates that in the development phase, IO in co-operation with Hydro One, will perform route siting, engineering conceptual design, environmental considerations and other development work. It is not clear from the evidence when these discussions were initiated and it is possible the discussions overlapped with the timing of the 2015-2016 Transmission Rates application.
- Although AMPCO agrees the forecasted expenses are clearly outside of the base upon which rates were derived, AMPCO submits if Hydro One was aware of these development costs at the time the parties entered into the settlement agreement process, as AMPCO believes was the case, it should have notified the parties at that time. A request for a deferral account could have been made at that time given the uncertainty around the cost estimate.

#### **Materiality:**

- “The forecasted amounts must exceed the Board-defined materiality threshold and have a significant influence on the operation of the transmitter otherwise they must be expensed in the normal course and addressed through organizational productivity improvements.
- Hydro One indicates the proposed Deferral Account will record preliminary engineering and planning costs incurred for the NWBTL Project prior to the selection of a preferred alternative as well as interest improvement on the principal balance of the NWBTLDA. The account balances will be reported to the Board as part of the established quarterly reporting process.
- Hydro One explains that extensive and lengthy consultation with private and commercial landowners and Infrastructure Ontario will be undertaken and it expects environmental issues will be complex given the location and Greenfield nature of the proposed lines giving rise to an elevated possibility of material expenditures related to the completion of this phase of the project.
- Hydro One’s transmission materiality threshold is \$3 million.<sup>3</sup>
- Hydro One maintains it is still unable to accurately estimate the preliminary development costs that will be recorded in the account. However, Hydro One believes the amounts recorded in the proposed deferral account will be material and are expected to exceed \$5 million.<sup>4</sup> It is unclear to AMPCO based on the evidence how the \$5 million amount was derived and if it is an annual amount or a total amount over a specific time period. Hydro One confirms there are no costs incurred to-date that will need to be recorded in the proposed NWBTLDA.<sup>5</sup> In AMPCO’s view, Hydro One’s evidence with respect to potential development costs is weak and does not allow the Board to make a determination on materiality.

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<sup>3</sup> Board Staff IR#1

<sup>4</sup> Board Staff IR#1

<sup>5</sup> Board Staff IR#4

- In response to Board Staff IR#8, Hydro One expects that recovery of these costs will not affect its financial risk profile. Based on a preliminary estimate of OM&A development costs in the range of \$5 million to \$10 million, non-recovery of these costs, in isolation, would not have a materially adverse effect on Hydro One's financial risk profile or financial metrics.
- In considering the above, AMPCO submits there is no basis for the cost estimate provided and there is no evidence that the expenses will have a significant influence on the operation of the transmitter. As a result, AMPCO submits the materiality criterion has not been met and on this basis the Board should not approve the requested deferral account. AMPCO submits the development expenses should be expensed in the normal course and addressed through organizational productivity improvements.

**Prudence:**

- The nature of the costs and forecasted quantum must be reasonably incurred although the final determination of prudence will be made at the time of disposition. In terms of the quantum, this means that the applicant must provide evidence demonstrating as to why the option selected represents a cost-effective option (not necessarily least initial cost) for ratepayers. In addition, applicants must include a draft accounting order which must include a description of the mechanics of the account, including providing examples of general ledger entries, and the manner in which the applicant proposes to dispose of the account at the appropriate time.
- As described above, AMPCO submits that the nature of the costs and forecasted quantum are not adequately substantiated. In AMPCO's view, Hydro One has not met the prudence eligibility criterion and the Board should not approve Hydro One's request to establish a new deferral account.
- Hydro One indicates that without approval of this deferral account, it will cease predevelopment activities on the North West Bulk Transmission Line project, which will delay the in-service date that will ultimately impact ratepayers (i.e. Hydro One will not be able to timely address the electricity adequacy concerns the OPA identified in the West of Thunder Bay area).
- AMPCO submits that under the Minister's Directive and January 2014 condition to Hydro One's Transmission license, Hydro One is required to undertake this work.