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BY COURIER

February 20, 2015

Ms. Kirsten Walli  
Secretary Ontario Energy Board  
Suite 2700, 2300 Yonge Street  
Toronto, ON.  
M4P 1E4

Dear Ms. Walli:

**EB-2014-0311 - Hydro One Networks' Application for an Accounting Order regarding the establishment of a North West Bulk Transmission Line Deferral Account – Hydro One Networks Reply Submission**

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I am attaching two (2) copies of Hydro One Networks' Reply Submission

An electronic copy of the reply submission has been filed using the Board's Regulatory Electronic Submission System (RESS) and the proof of successful submission slip is attached.

Sincerely,

ORIGINAL SIGNED BY JOANNE RICHARDSON

Joanne Richardson

Attach.

c. Intervenor (electronic only)

# HYDRO ONE REPLY SUBMISSION

## 1.0 INTRODUCTION

On October 3, 2014, Hydro One Networks Inc. (“Hydro One”) applied to the Ontario Energy Board (“the Board”) for an accounting order to establish a new deferral account, “North West Bulk Transmission Line Deferral Account” (“NWBTD”), for the purpose of recording expenses relating to the North West Bulk Transmission Line Project (“the Project”).

The application requested the account be effective from October 1, 2014 and would capture costs that relate to expenditures incurred relating to preliminary design/engineering, cost estimation, public engagement/consultation, routing and siting, Environmental Assessment preparation work and preliminary station design work associated with this project before the costs qualify to be recorded in Construction Work In Progress (“CWIP”).

In Hydro One’s view, the proposed NWBTD should be approved and is in the public interest because:

- The Project is a priority project identified in the 2013 Long-Term Energy Plan;
- The OM&A costs were not included in Hydro One Transmission’s 2014 rates (EB-2012-0031), nor are they included in the 2015/16 approved transmission rates revenue requirements (EB-2014-0140)<sup>1</sup>. As such they are outside the base upon which rates were derived;
- The Ministry of Energy gave direction to Hydro One to undertake development work on this project (“the Ministry’s Letter”) and additionally directed the OEB to amend Hydro One Transmission’s licence to include this as a requirement<sup>2</sup>; and
- Hydro One is not seeking recovery of costs at this time and the costs recorded in the

<sup>1</sup> EB-2014-0311 - Application, Page 1.

<sup>2</sup> EB-2014-0311 - Attachment A to the Application.

1        deferral account will be subject to review upon disposition where they would be  
2        recovered through the Ontario Uniform Transmission Rates.

3  
4        The need for this account is to ensure that Hydro One is able to recover costs that are  
5        outside of its control and are incremental to its current revenue requirement. As noted in  
6        Power Workers' Union ("PWU") submission:

7            "This is not the first time that Hydro One has been directed to undertake  
8            preliminary work for a project (Northwest Transmission Expansion  
9            project) and in the Decision with Reasons (EB-2008-0272), dated May 28,  
10          2009 the Board approved a similar deferral account..."<sup>3</sup>.

11  
12        Submissions in respect of the NWBTDA were received from: Board Staff, PWU,  
13        Vulnerable Energy Consumers Coalition ("VECC"), Canadian Manufacturers &  
14        Exporters ("CME"), Energy Probe ("EP"), Association of Major Power Consumers in  
15        Ontario ("AMPCO") and School Energy Coalition ("SEC").

16  
17        In the remainder of this reply submission, Hydro One will respond to comments the  
18        parties have made.

## 19 20        **2.0        EFFECTIVE DATE OF NWBTDA**

21  
22        Hydro One requested the account be effective from October 1, 2014. Board Staff  
23        suggested in its Submission<sup>4</sup> that the effective date of the deferral account should be  
24        January 1, 2015. Given that no expenditures have been incurred to-date, Hydro One is in  
25        agreement with this recommendation.

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<sup>3</sup> EB-2014-0311 - PWU Submission, Pages 3 & 4.

<sup>4</sup> EB-2014-0311 - Board Staff Submission, Page 2.

### 3.0 TEST FOR ESTABLISHMENT OF A DEFERRAL ACCOUNT

In order to establish a deferral account, the Board's *Filing Requirements for Electricity Transmission Applications* (dated January 2, 2014) ("Filing Requirements"), outline that the eligibility criteria of causation, materiality and prudence must be met. In addition, the Applicant must provide a Draft Accounting Order.

#### 3.1 Causation

Board Staff, PWU and CME are supportive of Hydro One's application in that causation has been established.

Some parties took issue with the fact that Hydro One was aware of the Project during the 2015/16 Transmission rates hearing. They suggested that the costs were reasonably foreseeable and Hydro One was capable of forecasting and including the costs in the requested rates revenue requirement. Parties also suggested that the deferral account should have been requested during that proceeding.

Hydro One acknowledges it was aware of the Project during the 2015/16 Transmission Rates application. As noted in the application, the Ministry's Letter, received in December 2013, assigned the development work to Hydro One. However, Hydro One had not received confirmation from the OPA of the Project's need, timing and scope. Further, the Ministry's Letter clearly outlined the path of events Hydro One was to follow, stating:

"a key initial step in the line's development would be the definition of the scope and timing for construction of the line, to be provided by the Ontario Power Authority in the course of its ongoing planning work"<sup>5</sup>.

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<sup>5</sup> EB-2014-0311 – Ministry's Letter, Attachment A to the Application, Page 1

1 VECC wrote in their submission:

2 “Hydro One has gamed and/or been non-observant of the revenue  
3 requirement application process such that the proposal for deferral  
4 accounts has been eliminated from the full scrutiny of interested parties”<sup>6</sup>.

5  
6 Hydro One strongly disagrees with this line of inference. Hydro One maintains that until  
7 the OPA’s letter was received on October 1, 2014, Hydro One did not have direction to  
8 proceed with the Project, and to include any costs in its revenue requirement would not  
9 be prudent. Hydro One believes that rate payers should not pay for a project where the  
10 need has yet to be established, where the timing is uncertain, and where Hydro One is not  
11 able to reasonably forecast the magnitude of costs. Hydro One followed the Board’s  
12 Letter of Direction requirements which included notifying approximately 200 parties and  
13 posting the notice on Hydro One’s website; allowing interested parties to intervene in the  
14 application, and to scrutinize the application as required.

15  
16 As noted by the PWU:

17 “Hydro One did not initiate the NWBTL Project and any costs incurred  
18 are the result of direction from the Ministry, therefore Hydro One should  
19 not be at risk for the uncertainties of its costs related to the project”<sup>7</sup>.

### 21 **3.2 Materiality**

22  
23 Board Staff and PWU are supportive of Hydro One’s application that materiality has  
24 been established. Other intervenors have commented that Hydro One has not provided  
25 evidence to meet the materiality criteria.

26  
27 Hydro One has indicated in its application it expects expenditures will exceed the \$3  
28 million threshold as set by the Board’s Filing Requirements. In response to  
29 interrogatories, Hydro One has indicated that per the Ministry of Energy’s request, Hydro

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<sup>6</sup> EB-2014-0311 - VECC Submission, Page 5.

<sup>7</sup> EB-2014-0311 - PWU Submission, Page 3.

1 One and Infrastructure Ontario (“IO”) are in discussions to negotiate the cost and scope  
2 of work each party will potentially undertake to support the development phase of the  
3 Project. Current indications are that those costs will be in excess of \$5 million.<sup>8</sup>

4  
5 Hydro One believes the level of these costs is reasonable. Hydro One provided a  
6 comparable project that is indicative of the pattern and magnitude of costs that are  
7 expected. For that project, \$2.6 million was recorded in a deferral account for the  
8 Northwest Transmission Expansion project for development work on a similar type  
9 project located in close geographical proximity. That project was suspended before its  
10 completion<sup>9</sup>.

11  
12 Intervenors also raised issue that the forecast amounts must have a significant influence  
13 on the operations of the transmitter and believe Hydro One should be able to absorb the  
14 development costs in its approved 2015/16 Transmission rates. It was implied that Hydro  
15 One’s response to Board Staff Interrogatory 8 (Exhibit I, Tab 1, Schedule 8) which  
16 addresses the *financial risk* of the project, could be deduced to be the same as the  
17 *operational risk* to the company. Hydro One disagrees. If the deferral account is not  
18 approved, Hydro One will not proceed with this project at this time. Hydro One suggests  
19 that it would be inappropriate to reduce OM&A spending further beyond the level of  
20 reductions already approved in the Transmission settlement agreement of \$20 million in  
21 each test year.

22  
23 EP seems to have mistaken the nature of the costs being requested, stating:

24 “Accordingly in our view, it is not appropriate for Hydro One to state at  
25 this point that none of the OM&A development costs for the NWBT  
26 Project will be capitalized and included in CWIP and recovered when the  
27 assets are placed in service”<sup>10</sup>.

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<sup>8</sup> EB-2012-0311 - Exhibit I, Tab 1, Schedule 5.

<sup>9</sup> EB-2014-0311 - Hydro One’s response to Board Staff IR 7 (Exhibit I, Tab 1, Schedule 7, Page 1).

<sup>10</sup> EB-2014-0311 - Energy Probe Submission, Page 4.

1 The request for an accounting order to establish the proposed deferral account is for  
2 recording OM&A development costs incurred up until the point of establishing the  
3 Project's preferred alternative. Hydro One confirms that Project costs incurred thereafter  
4 would be capitalized in CWIP, and not in the deferral account nor in Hydro One's annual  
5 OM&A expenditures.

6  
7 Hydro One believes that the costs forecast to be tracked in this account meet the  
8 materiality criteria, as Board Staff noted in its submission:

9 "...early development OM&A costs of this nature would not normally be  
10 recoverable. However, given that Hydro One is undertaking these  
11 activities pursuant to a condition of its transmission licence, and given that  
12 costs to be incurred are consequently non-discretionary and likely to be  
13 material, Board staff supports the establishment of this account"<sup>11</sup>.

### 14 15 **3.3 Prudence**

16  
17 Board Staff, PWU, CME and EP agreed Hydro One had established the prudence criteria.  
18 VECC commented Hydro One did not meet the requirement of prudence due to the  
19 failure to include a Draft Accounting Order. Hydro One respectfully submits that  
20 Attachment C to the application is the Draft Accounting Order prescribed to be included  
21 by the filing requirements.

22  
23 Hydro One reiterates that the final determination of prudence will be made at the time  
24 Hydro One applies for disposition of the account in a future transmission rate filing  
25 hearing. The Board and other stakeholders will have the opportunity to review the  
26 prudence of those costs at that time.

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<sup>11</sup> EB-2014-0311 - Board Staff Submission, Page 2.

1     **4.0     OTHER COMMENTS**

2  
3     Hydro One wrote in its response to Board Staff Interrogatory 1 (Exhibit I, Tab 1,  
4     Schedule 1, Page 2):

5             “Without approval of this deferral account, Hydro One will cease  
6             predevelopment activities on the North West Bulk Transmission Line  
7             project, which will delay the in-service date that will ultimately impact  
8             ratepayers (i.e. Hydro One will not be able to timely address the electricity  
9             adequacy concerns the OPA identified in the West of Thunder Bay area)”.

10  
11     Many of the Intervenors took offence to this statement, which in essence, is captured by  
12     CME’s submission that stated:

13             “Under its Electricity Transmission Licence, Hydro One is obliged to  
14             develop and seek approvals for the NWBTL Project. This obligation is not  
15             conditional on prior Board approval of the deferral account relief that  
16             Hydro One seeks in this application”<sup>12</sup>.

17  
18     Hydro One has **not** said it will not fulfill its licence requirements. In Hydro One’s  
19     response to Board Staff Interrogatory 1 (Exhibit I, Tab 1, Schedule 1, Page 2), it said:

20             “Without approval of this deferral account, Hydro One will cease  
21             predevelopment activities on the North West Bulk Transmission Line  
22             project which will **delay** [emphasis added] the in-service date”.

23  
24     Without a deferral account Hydro One will wait until the next rate application for 2017  
25     rates and beyond to commence the predevelopment activities on the North West Bulk  
26     Transmission Line project.

27  
28     Hydro One believes that the type of costs requested to be recorded in this account should  
29     be recoverable given that activities will be undertaken pursuant to a condition in its

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<sup>12</sup> EB-2014-0311 - CME Submission, Page 4.

1 Transmission licence. Hydro One would not reasonably expect that the Ministry's  
2 intention was for the work to proceed without the opportunity to fund it, given that the  
3 Ministry's Letter stated:

4 "In terms of timing, the transmission line would not be built until the  
5 conclusion of the development work and the receipt of **all required**  
6 **regulatory approvals**"<sup>13</sup>,

7 and

8 "As a next step, and **assuming all necessary approvals and authorities**  
9 **are in place**"<sup>14</sup>.

10  
11 Hydro One has interpreted this to mean that the Ministry is expecting appropriate  
12 financial management, including the assurance that all costs, development or otherwise,  
13 will have a reasonable expectation of recovery, which Hydro One notes, is consistent  
14 with well-established and tested regulatory cost recovery principals.

## 15 16 **5.0 CONCLUSION**

17  
18 In summary, Hydro One believes that the establishment of the North West Bulk  
19 Transmission Line Deferral Account should be approved. Hydro One has met the Board's  
20 eligibility criteria of causation, materiality and prudence. The costs that are proposed to  
21 be recorded within the account will be material, however, the timing and magnitude  
22 remain unknown. One of the reasons that regulatory accounts exist is because of the  
23 uncertainty to predict costs and not to burden ratepayers with costs that cannot be  
24 forecast. Finally, Hydro One is of the opinion that it is in the public interest to approve  
25 the account such that the Project's timelines are not impacted.

26  
27 All of which is respectfully submitted for the Board's consideration.

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<sup>13</sup> EB-2014-0311 - Ministry of Energy's Letter to Hydro One - Attachment A to the application, Page 1.

<sup>14</sup> EB-2014-0311 - Ministry of Energy's Letter to Hydro One - Attachment A to the application, Page 2.