CANADIAN NIAGARA POWER INC.
A FORTIS ONTARIO Company

March 19, 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 Argument In Chief.

A PDF version of the Argument In Chief 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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EB-2014-0204

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 Canadian Niagara Power Inc. for an order approving transmission revenue requirements to be effective January 1, 2015 and January 1, 2016.

Canadian Niagara Power Inc.

Argument in Chief

March 19, 2015

INTRODUCTION

This is the Argument in Chief of Canadian Niagara Power Inc. ("CNPI") with respect to its application for approval of its 2015 and 2016 Transmission Revenue Requirements.

CNPI will, through these submissions, summarize the proposed (updated) 2015 and 2016 Revenue Requirements and provide some preliminary comments with respect to issues that it appears to CNPI have been raised by Board Staff through their interrogatories, technical conference questions and oral hearing questions, understanding that CNPI will have an opportunity to provide a further written reply to any concerns raised by Board Staff in their written submissions.

2015 PROPOSED REVENUE REQUIREMENT

As set out in the evidence, the previously approved Revenue Requirement for CNPI's transmission system was $4,784,374 for 2002.[1]

The originally filed application sought a 2015 Revenue Requirement of $4,530,710, a decrease of $253,664 relative to the previously approved 2002 Revenue Requirement.[2]

Subsequent to the original filing, Board Staff identified a calculation error with respect to the treatment of certain 2015 amounts relating to the proposed capital expenditures, an error acknowledged by CNPI.[3] Additionally it was determined that there was an amount included in 2015 related to employee compensation for positions that are, subsequent to filing the application, forecast to be vacant for part of 2015,[4] as well as an understatement with respect to the amount of property tax forecast for 2015[5]. These updates result in an updated 2015 Revenue Requirement of $4,467,388; a decrease of $316,986 relative to the previously approved 2002 Revenue Requirement.[6]

2016 PROPOSED REVENUE REQUIREMENT

The originally filed application sought a 2016 Revenue Requirement of $4,818,057, an increase of $287,436 relative to the originally applied for 2015 Revenue Requirement, or an increase of only $33,683 relative to the previously approved 2002 Revenue Requirement.

As a result of the changes discussed above and captured in Exhibit J1.3 and Exhibit J1.4, the updated applied for 2016 Revenue Requirement is $4,843,623; an increase of

[1] Exhibit 1 Tab 2 Schedule 2 Page 1 Table 1.2.2.1 sets out the 2002 Board approved revenue requirement in its constituent elements.
[2] Exhibit 1 Tab 2 Schedule 2 Page 1 Table 1.2.2.1
[3] Transcript Volume 1, page 82, lines 12 to 28.
[4] Transcript Volume 1, page 87, lines 6 to 23.
[5] Exhibit J1.4 confirms that the property tax forecast in the application is understated by $23,000.
[6] Exhibit J1.3 sets out the updated revenue requirements for 2015 and 2016, with the exception of the property tax forecast error set out in Exhibit J1.4.

$376,235 relative to the updated 2015 Revenue Requirement, or an increase of only $59,249 relative to the previously approved 2002 Revenue Requirement.[7]

BILL IMPACTS

Whether in relation to the originally filed amounts or with respect to the updated Revenue Requirements set out in Exhibit J1.3, CNPI confirms that there continues to be no material rate impacts arising from the revenue requirements requested in this Application.[8]

ISSUES

Through the hearing process, it appears to CNPI, subject to the submissions of Board Staff to which CNPI will reply in due course, that the following items influencing the 2015 and 2016 revenue requirements may be at issue:

THE PROPOSED REBUILD OF THE INTERNATIONAL POWER LINE

It appears to CNPI that Board Staff may raise some issues with respect to the costs associated with the proposed Rebuild of the International Power Line (the "IPL"). What follows is a short summary of the evidence with respect to CNPI's reasons for maintaining the IPL as part of its transmission system.

CNPI proposed a like-for-like rebuild of the IPL that came to the end of its useful life when it was placed into forced-outage in March of 2013. CNPI considered the following alternatives to address the state of the IPL:

[7] Exhibit J1.3
[8] As explained in Exhibit 1 Tab 1 Schedule 6 page 1, because CNPI's revenue requirement is recovered through the Board Approved Uniform Transmission Rates ("UTR") the size of CNPI's revenue requirement and charge determinants do not impact the UTR to two decimal places.

Alternative #1: Status quo (i.e. do nothing)

This alternative was rejected by CNPI because of the related public safety risks, as well as longer than permitted outages in the event of an outage. According to the IESO's *Ontario's Resource and Transmission Assessment Criteria* ("ORTAC"), all loads must be restored within approximately 8 hours.[9] According to CNPI's evidence, the time to restore the load without the IPL if there was an unplanned outage, could be as low as 12 hours and as high as three days, which would both exceed the ORTAC requirement.[10]

Alternative #2: Removal of IPL, and Replacement with a Synchronous Tie Line

Alternative #2, replacement of the existing IPL with a Synchronous Tie Line, was rejected by the Board in EB-2009-0278.

Alternative #3: Removal of the IPL along with the associated abandoned facilities

This alternative was rejected because it would be more expensive than a like-for-like replacement,[11] CNPI's system would not be compliant with ORTAC's 8-hour restoration requirement, and the strategic Canada/U.S. intertie and corridor would be lost. CNPI submits that the strategic value of the international corridor should not be underestimated. As set out in the Ontario Power Authority in its letter dated September 23, 2014, "The OPA continues to take the view that maintaining an international transmission corridor has strategic value in the future should further interconnection capability be required."[12]

CNPI also submits that it would not be good utility practice to attempt to diminish the cost of this alternative by assuming the abandoned facilities can be left in place in order to reduce the cost of this alternative. As stated by CNPI in the oral hearing, the

[9] ORTAC section 7.2(a) and Transcript Volume 1, page 29, lines 16 - 23.
[10] Transcript Volume 1, page 73, lines 7-8.
[11] Removal costs are estimated at$11.1 million (as updated by undertaking JT1.6 for the current exchange rate) vs. approximately $6.9 million to rebuild the IPL.
[12] Exhibit 11, Schedule 1, Tab 1, Appendix C.

associated abandoned facilities run over five major intersections, two of which are the QEW.[13] CNPI also stated:

> MR. BRADBURY: So we will have several kilometres of 115 kV transmission line that will essentially be disconnected and just sitting there disconnected. It will no longer be under the control of our SCADA system. We won't be aware, other than if a customer calls in and says your line has fallen down or something like that. So it is definitely not good utility practice, and it would be a hazard.[14]

CNPI notes that "good utility practice" is a defined term in the Transmission System Code (the "TSC"), and CNPI is required by the TSC to maintain its facilities in compliance with good utility practices:

> 5.1.2 A transmitter shall operate and maintain its transmission facilities in compliance with this Code, its licence, its operating agreement with the IESO, the Market Rules, all connection agreements, good utility practice, the standards of all applicable reliability organizations and any applicable law.

Alternative #4: Like-for-like replacement of the IPL

This alternative is the most prudent alternative and was therefore selected by CNPI. It is the most cost-effective alternative that allows CNPI to comply with the 8-hour ORTAC requirement, and it will maintain an intertie and strategic corridor between Canada and the United States.

The National Energy Board (the "NEB") has approved the like-for-like replacement of the IPL.[15] Upon reviewing CNPI's application to the NEB, it has been determined that CNPI provided the NEB with justification for and alternatives to the IPL replacement project. Approval from the NEB was necessary to proceed with the IPL replacement project,

[13] Transcript Volume 1, page 39, lines 1 and 2.
[14] Transcript Volume 1, pages 35 and 36, lines 23-28 and 1-2 respectively.
[15] Exhibit 11, Schedule 1, Tab 1, Appendix B.

similar to obtaining leave to construct from the OEB. However, the NEB does not approve transmission rates for Ontario ratepayers. That function falls within the jurisdiction of the Ontario Energy Board, which is the subject of the current application. CNPI submits that the Board must assess the prudence of the IPL replacement project as part of the exercise of setting CNPI's transmission rates.

In CNPI's respectful submission, maintaining the IPL as a component of its transmission system is the most prudent alternative available to it under the circumstances, such that the Board should approve the cost consequences of implementing this alternative when setting CNPI's rates for 2015 and beyond.

THE TIMING OF THE PROPOSED RELOCATION OF LINE ASSETS AS A RESULT OF THE PROPOSED CANADIAN MOTOR SPEEDWAY PROJECT

As noted in Exhibit 2, Tab 2, Schedule 2 page 5, CNPI is forecasting $460,000 with respect to the costs associated with relocating portions of its Line 2 in order to accommodate the development of the Canadian Motor Speedway in Fort Erie.

It appears to CNPI that Board Staff was concerned about the forecast timing of the work, insofar as it may not be started and completed within a timeframe that would see that spending close to rate base in 2016 as forecast.

As was summarized and confirmed by CNPI during the oral hearing in response to questions raised by Board Staff, the proposed relocation work remains forecast to be completed in 2016, with CNPI being required to begin the work in 2015 prior to the proponent triggering development work, being able to do their own construction.[16]

Accordingly CNPI submits that the proposed costs associated with the relocation work in relation to the Canadian Motor Speedway are properly included in the calculation of the 2016 revenue requirement.

[16] Transcript Volume 1, pages 75 to 76.

THE PROPOSED RECOVERY OF PRELIMINARY COSTS RELATED TO PROJECT FORTRAN

As set out in Exhibit 10, CNPI is proposing to recover a total of $1,221,281 in relation to the pre-development costs incurred by CNPI to bring forward a Leave to Construct Application for a synchronous interconnection between Fort Erie and the United States ("Project Fortran").

The costs sought for recovery with respect to Project Fortran relate specifically to costs associated with investigating the project, meeting the requirements of the various feasibility and impact studies and finally preparing and presenting the Leave to Construct Application. The costs sought for recovery which consist entirely of 3rd party costs,[17] were expended over the course of approximately 7 years, from the 3rd quarter of 2003 when CNPI first engaged an engineering firm to do a preliminary engineering review of the project, to March 29, 2010 when the Board ultimately denied the leave to construct of the proposed synchronous interconnection.

Accounting Treatment

CNPI Tx recorded the spending as Capital Work in Progress ("CWIP") in account 2055. In the normal course, such amounts would be capitalized once the asset was used and useful. Because the Board denied CNPI's leave to construct application in EB-2009-0283, CNPI knew that Project Fortran would not be constructed. Because Account 2055 contemplates that the amounts recorded as CWIP will be capitalized, CNPI applied to the Board to transfer the Project Fortran costs to a deferral account.[18] As stated by CNPI in its reply submission in that proceeding, its request was a housekeeping matter and it would not mind if the Project Fortran costs were left in account 2055 for disposition at a future date:

[17] The details of the costs and the project timeline are set out in detail in Exhibit 10, pages 1 to 14.
[18] EB-2010-0159

> As explained in CNPI's June 22nd Submission, CNPI has already recorded the Preliminary Costs in Account 2055 Construction Work in Progress. In the normal course, CNPI would have capitalized the Preliminary Costs with the other development and construction costs related to the Project. However, now that the Project will not proceed and Account 2055 contemplates the completion of work-in-progress, CNPI believes that it would be appropriate to establish a new deferral account for the Preliminary Costs. In other words, CNPI's request is more of an accounting housekeeping matter than a request to establish a deferral account to record new costs. 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.[19]

Because the Project Fortran costs remain recorded in Account 2055, CNPI submits that there is no accounting reason why they cannot be recovered in this proceeding.

Prudence

CNPI submits that the only issue for the Board to consider in regard to the recovery of the Project Fortran costs is whether they were prudently incurred.

As a licenced transmitter, CNPI is obligated to maintain the reliability of its transmission system in accordance with its Electricity Transmission Licence (ET-02003-0073). Under its licence, CNPI is required to comply with the transmission System Code ("TSC"), of which section 3B.1 states:

> A transmitter shall, in accordance with the Act, its licence and this Code, maintain there liability and integrity of its transmission system and reinforce or expand its transmission system as required to meet load growth.

As set out at Exhibit 10, Schedule 1, Tab 1, CNPI explored alternatives in addition to a like-for-like replacement of its international transmission line in accordance with good

[19] EB-2010-0159, CNPI Reply Submission dated July 9, 2010, page 3 of 6.

utility practice and the requirements of the TSC and determined that the best option at that time would be to expand the international transmission line and make it a synchronous interconnection. CNPI prudently incurred costs associated with investigating the project, meeting the requirements of the various feasibility and impact studies and finally preparing and presenting the Leave to Construct Application. These costs include engineering assessments, consultation, and legal representation as well as the costs associated with the participation of the system operators and interconnected transmitters.

CNPI respectfully submits that the evidence provided in support of its spending in pursuit of a leave to construct for the proposed Project Fortran establish that CNPI was acting prudently, and that accordingly the Project Fortran Costs should be recovered in rates as proposed.

RECOVERY OF SAVINGS RELATED TO THE IMPLEMENTATION OF THE HARMONIZED SALES TAX

Board Staff has raised the issue of the recoverability on behalf of ratepayers of the tax savings realized by CNPI in the period between 2010 and 2014 as a result of the implementation of the Harmonized Sales Tax (HST).

CNPI is unaware of any Board approved mechanism that would have allowed CNPI, as a regulated transmission company, to record the impact of changes in taxes, such as the creation of the HST, in a manner similar to that which distributors would have done through the use of Account 1576.

In any event, CNPI has performed a rough calculation of the amount that would have ostensibly been captured in such an account had CNPI been directed to track the impact of the implementation of the HST on its costs. As set out in Exhibit J1.1, the total amount that would have ostensibly been payable to ratepayers through the operation of such an account would have been in the order of $15,976 in total for all 5 years that the account would have captured, well below the materiality threshold that would apply to CNPI on even an annual basis.

25 CYCLE-TRANSMISSION LINE REMOVAL PROJECT

Board Staff appears to have concerns about the increase in the pace of the ongoing removal of now-unused towers, the pace having been forecast to accelerate from 15 towers per year in 2012-2014 to 30 towers per year between 2015 to 2018, a doubling of the rate of removal albeit it at only 50% more cost.[20]

As was described during the course of the oral hearing, CNPI began taking down the obsolete towers at a pace of 10 towers per year in 2010 and 2011, but noticed early on that some of the towers, situated in residential neighbourhoods, had broken conductors and were beginning to lean, causing a safety concern that prompted an acceleration to 15 towers per year in 2012. In mid 2013, CNPI identified rust issues with some of the towers, along with issues with birds taking up residence in the towers, prompting another acceleration of the program, beginning in 2015, to 30 towers per year.[21] As was explained in the hearing:

> MR. KILFOIL: From a planning perspective we -- when we plan our projects out for -- especially work like this, it's capital-light(sic), even though I know we are expensing it, there is a lead time. We've got to make sure it fits into our resources and our own internal budgeting year over year. So when we identified the problem with the corrosion and so on we are already into 2013, so the first budget year available to us for our own internal operating process was 2015 to expand the scope of the project. Like, '14 was already committed, you know, and locked and firmed up, shall we say, it's already approved within our own internal management, so 2015 was the first year

[20] Exhibit 4 Tab 3 Schedule 1 page 2 lines 10 to 17 describes this project, with Table 4.3.1.2 setting out the historical and forecast pace of this project.
[21] Transcript Volume 1, pages 90 to 92.

> available to us after '15 (sic) to change the scope of the project and have it fit within our own internal budgets.
>
> MR. MILLAR: Is this work you do yourself or you -- I assume you contract this work?
>
> MR. HAN: We contract it out. There is another element of retirement, is you do need to do, you know, engineering design. It is not go, like, go there, you take it down. You do have to do engineering design because these towers you have to dead end properly, safely in a place.
>
> So it is not like we decide to change to 15 to 30 tomorrow, well, let's go to do that, so we do have to have engineering staff to go there, and also, this is all contractor people. These -- they already scheduled those time for us to say, here is what we will give you the time for. We already booked them. So if we want to dramatically change, that is why we started in '15, those two years '14 and -- '13 and '14, those two years are preparing the transition time. When we identify the issue, we say: Let's do it as much as we can over the next two years. And then we will move on. This is technical restriction, not money restriction. And then we move on to see whether we can do it, get additional resource to do that from a contractor and engineering perspective.
>
> MR. MILLAR: You weren't able to get that sorted out until 2015, I guess?
>
> MR. HAN: Yes.[22]

Accordingly CNPI respectfully submits that the acceleration of the rate at which these towers are removed to 30 towers per year in 2015 is appropriate.

CONCLUSION

In summary, with the adjustments described above with respect to the final 2015 and 2016 revenue requirements, CNPI maintains that this application provides the basis for

[22] Transcript Volume 1, pages 95 to 97.

setting just and reasonable rates for the transmission of electricity within the CNPI service territory.

ALL OF WHICH IS RESPECTFULLY SUBMITTED THIS 19th DAY OF MARCH 2015.