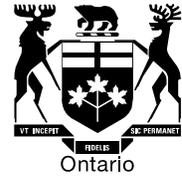


Ontario Energy
Board

Commission de l'énergie
de l'Ontario



EB-2012-0180

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. to Establish a Deferral Account Related to the
East-West Tie Line Proceeding (EB-2011-0140).

BEFORE: Cynthia Chaplin
Vice Chair and Presiding Member

Cathy Spoel
Member

DECISION AND ORDER
July 12, 2012

The Proceeding

On March 22, 2012 Hydro One Networks Inc. (“HONI”) filed an application for an accounting order authorizing it to establish a new deferral account, the East West Tie deferral account (“EWTDA”). The purpose of the EWTDA is to record expenses relating to the East-West Tie Line proceeding (EB-2011-0140, also referred to as the “Designation Proceeding”) and subsequent connection project-related activities related to the new electricity transmission line. The Board assigned File No. EB-2012-0180 to the application.

HONI is requesting that a single deferral account, the EWTDA, be created and that it consist of three sub-accounts to address three main categories of costs, namely: OEB Allocated Proceeding Costs; Support Costs for OEB Designation Process; and Development Work Associated with Stations and Other Supporting Asset Expenditures. HONI proposes that the EWTDA be made effective as of January 3, 2012.

On May 28, submissions were received from the following intervenors: Canadian Manufacturers & Exporters (“CME”), Great Lakes Power Transmission LP (“GLPT”), Power Workers Union (“PWU”), London Property Management Association (“LPMA”), School Energy Coalition (“SEC”), and Vulnerable Energy Consumers Coalition (“VECC”); and, Board staff. HONI filed its reply submission on June 4, 2012.

Board Findings

In reviewing an application for the approval of a deferral account, the Board generally considers the following criteria: causation, materiality, and reasonableness. The Board will consider causation in terms of whether the amounts to be recorded in the account are clearly outside of the base upon which base rates were derived and whether the costs to be recorded in the account relate directly to the purpose of the account. The Board will consider materiality in terms of whether the amount of the costs to be recorded in the account is sufficiently high to justify establishing the account. The forecast amounts should exceed the Board-defined materiality threshold and be likely to have a significant influence on the operation of the utility. Finally, the Board will consider the reasonableness of the forecast costs and whether the proposed expenditures are

cost-effective (although the Board's review and its final determination of prudence would be made at the time of disposition).

For the reasons set out below, the Board denies HONI's request for a deferral account for the cost category titled OEB Allocated Proceeding Costs, and the Board grants, with conditions, HONI's request for the other two cost categories: Support Costs for OEB Designation Process; and Development Work Associated with Stations and Other Supporting Assets. HONI may record these costs in the following new deferral sub-accounts, effective March 22, 2012:

- Account 1508, Other Regulatory Assets, Sub-account EWTDA - Support Costs for OEB Designation Process; and
- Account 1508, Other Regulatory Assets, Sub-account EWTDA - Development Work Associated with Stations and Other Supporting Asset Expenditures.

The Board cautions that the establishment of these deferral sub-accounts does not guarantee that the amounts collected therein will be automatically disposed, consistent with the principles underlying all Board-approved deferral accounts.

OEB Allocated Proceeding Costs

This category of costs consists of the costs awarded to participants in the Designation Proceeding and the Board's own costs.

The Board in the Designation Proceeding has determined that the costs awarded in that proceeding, including the Board's own costs, will be charged to the licensed transmitters:

the Board has determined that the costs of this proceeding, both cost awards to eligible intervenors and the Board's own costs, will be recovered from licensed transmitters...The costs will be apportioned between these transmitters based on their respective transmission revenues.¹

HONI proposes to track amounts that have been apportioned to it through invoice by the Board in relation to any hearing costs in the OEB Allocated Proceeding Costs sub-account of the EWTDA. LPMA, PWU, CME and VECC supported HONI's proposal.

¹ EB-2011-0140, Procedural Order No. 1 dated March 9, 2012, page 2

SEC opposed the request. SEC submitted that these types of costs are already included in HONI's revenue requirement in that HONI's forecast of regulatory costs takes into account uncertainty with respect to specific expenditures and proceedings. SEC further argued that this approach is consistent with a future test year cost-of-service. SEC noted that if specific forecast expenses do not occur during a test year, ratepayers are not eligible for a refund of the amount.

HONI responded that the costs applicable for the Designation Proceeding are not of the same nature as other unforeseen proceeding costs that HONI has forecast in its revenue requirement.

The Board also received two letters related to this HONI request: one from GLPT on May 28, 2012 and one from Five Nations Energy Inc. ("FNEI") on June 15, 2012. These licensed transmitters requested that if the Board grants the HONI request, then the Board should also provide similar accounts for them.

The Board does not agree with HONI that the costs applicable to the Designation Proceeding are not of the same nature as other unforeseen proceeding costs that HONI has forecast in its revenue requirement. The Board, in all of its proceedings and consultations, determines which parties will be required to pay the costs of the Board and cost-eligible intervenors. The Board does not typically provide deferral accounts for these amounts. The Designation Proceeding is not unusual in that respect. The Board notes that some significant portion of the costs will be allocated to HONI in 2013 and that the company has recently filed a transmission rate application for 2013 and 2014. Finally, the Board considers it highly unlikely that the costs apportioned to HONI will be material. The Board concludes that the request does not meet the criteria of causation or materiality and that, therefore, a deferral account is not warranted for this category of cost.

Support Costs for OEB Designation Process

The second proposed category of costs under the EWTDA is entitled Support Costs for the OEB Designation Process ("Support Costs Sub-account"). HONI identified three types of costs that it will incur in support of the Designation Proceeding:

- 1) consultant costs;
- 2) incremental administration costs; and
- 3) labour costs.

HONI indicated that these costs will be tracked separately through the use of excel spreadsheets. HONI proposes to track both incremental and non-incremental labour costs in the Support Costs Sub-account of the EWTDA. HONI's position is that tracking non-incremental costs in this sub-account would ensure that such information would be available to the Board for possible use at a later date.

Board Staff generally supported HONI's Support Costs Sub-account request but did not support the tracking of non-incremental labour costs, as it would add undue complexity to the account. PWU, LPMA, and VECC supported HONI's request. SEC opposed the request.

In GLPT's letter of June 28, 2012, it indicated that it too may incur costs of this type. GLPT requested that, if the Board grants HONI's request, the Board should also approve an equivalent deferral account for GLPT.

The Board will grant HONI's request for a deferral account for this category of cost. As part of the Designation Proceeding, HONI will have a role in providing information to the Board and to the registered transmitters as they prepare their applications. The Board accepts that HONI has little control over the number and type of requests to which it may be subject as part of the Designation Proceeding. Further the Board expects HONI to be responsive to these requests and acknowledges that at this time the magnitude of the requests is unpredictable. The Board does not expect that HONI will seek to recover any costs related to the provision of information by the company to date in the Designation Proceeding, including the information which the Board ordered HONI to produce. The Board concludes that the request meets the criteria of causation and reasonableness, but at this time it is uncertain whether the amounts will be material. The Board will review these costs for materiality and prudence when HONI requests disposition of this account.

The Board concludes that it is unnecessary to record non-incremental costs in Account 1508, Other Regulatory Assets, Sub-account EWTDA – Support Costs for OEB Designation Process, as to do so would be unnecessarily complex and, more so, because these costs can be tracked separately and satisfactorily without being recorded in the deferral account.

The Board acknowledges HONI's proposal to track incremental costs via time tracking sheets to record the number of hours worked and to have these documents made available upon request. The Board will not determine now whether that represents sufficient evidence to support recovery of the costs, as that matter will properly be dealt with when the company eventually applies for disposition of the account. The Board does agree with Board staff's proposal that HONI be required to keep a log of consultant reports and associated costs, so that such information is readily available in the future.

In regard to GLPT's request that Board grant GLPT the same relief that it grants HONI (with respect to Support Costs for OEB Designation Process), it is not clear to the Board whether the information requested of GLPT during the Designation Proceeding would be of sufficient magnitude to warrant a deferral account. Moreover, in any event, the Board will not consider granting such a request in the absence of having received an application from GLPT.

Development Work Associated with Stations and Other Supporting Asset Expenditures

The third category of costs proposed under the EWTDA is entitled Development Work Associated with Stations and Other Supporting Asset Expenditures. HONI indicated that it has not incurred any development work costs to date associated with preliminary station and other supporting asset work. HONI further submitted that that these costs would cease once s.92 approval is received by the designated transmitter.

PWU and VECC supported the request. Board staff did not support the request and submitted that that HONI could collect a security deposit to guard against the risks outlined in HONI's submissions. SEC also opposed the request and argued that the work that would be captured in this account will not begin until next year

and HONI should more properly propose these costs its 2013-2014 cost of service transmission rates application.

The Board policy “Framework for Transmission Project Development Plans (EB-2010-0059)” indicates that development work should commence when a transmitter is designated. The policy goes on to state that a transmitter’s designation could be rescinded, multiple transmitters could be designated, an undesignated transmitter could bring forth a plan through a leave to construct application, or the project could be cancelled altogether. Because of this variety of potential outcomes, the Board is of the view that the alternatives proposed by Board staff above would not cover the risk of project cancellation.

The Board finds that HONI’s request for this deferral sub-account is appropriate. This approach will ensure that the costs that HONI incurs will attract the same treatment as costs incurred by the designated transmitter in the event the project is cancelled or is otherwise halted for reasons beyond HONI’s or the designated transmitter’s control. The Board finds that the request meets the criteria of causation and reasonableness, but at this point, it is uncertain whether the costs will be material. Any costs that HONI incurs related to station development work prior to the designation of a transmitter must be recorded in Account 1508, Other Regulatory Assets, Sub-account EWTDA - Support Costs for OEB Designation Process, not in Account 1508, Other Regulatory Assets, Sub-account EWTDA - Development Work Associated with Stations and Other Supporting Asset Expenditures.

Effective Date of EWTDA

HONI has requested the EWTDA be effective from January 3, 2012. HONI’s response to an LPMA interrogatory clarifies its position by stating in part that:

Although the Board did not issue a Notice of Application for EB-2011-0140 until February 2, 2012, there was activity relating to this proceeding prior to that date. On August 12, 2011 Board Staff sent a letter to licensed transmitters and other interested parties to indicate their interest in filing a development plan. Since this notification, meetings and consultation have occurred between Board Staff and potential transmitters which HONI has attended.

HONI is asking for this account to be effective from January 3, 2012 to track the cost incurred and attributable with preliminary work on the EWT Line proceeding (e.g. HONI participated in meetings for the EWT Line designation process arranged by Board Staff in January 2012).

PWU and VECC supported the proposed effective date.

LPMA did not support the establishment of deferral accounts with retroactive effective dates prior to the request for the account, and it noted that the only costs that may be included in the Jan. 3, 2012 through March 21, 2012 period that would be recovered from ratepayers are related to the OEB Allocated Proceeding Costs. CME supported LPMA's position.

Board staff submitted that any costs that may predate March 22 and are attributable to OEB Allocated Proceeding Costs can be tracked. Board staff further submitted that events such as meetings between Board staff, consultants and staff of HONI that occurred between August 11, 2011 and issuance of the Notice on February 2, 2012 were exploratory and preliminary in nature and should not be classified as incremental. Board staff concluded that if the EWTDA is granted, the effective date should be March 22, 2012, which is the date of the application.

HONI confirmed that there are no incremental costs during the period January 3, 2012 to March 21, 2012 for which it is seeking recovery. HONI noted, however, that there may be unbilled OEB Allocated Proceeding Costs that may have been incurred for the various stakeholder sessions held prior to March 21, 2012.

The Board has denied HONI's request for a deferral account for OEB Allocated Proceeding Costs and therefore there are no costs which pre-date March 22, 2012 for which the company is seeking recovery. The effective date for the new deferral sub-accounts will be March 22, 2012.

THE BOARD ORDERS THAT:**Implementation Steps**

1. HONI is hereby granted permission to record incremental costs related to the East-West Tie Line Designation Proceeding (EB-2011-0140) in the following new sub-accounts of deferral account (Account 1508) in accordance with the provisions of this decision:
 - Account 1508, Other Regulatory Assets, Sub-account EWTDA - Support Costs for OEB Designation Process; and
 - Account 1508, Other Regulatory Assets, Sub-account EWTDA - Development Work Associated with Stations and Other Supporting Asset Expenditures.
2. HONI shall prepare a draft Accounting Order for each of the two new sub-accounts and file it with the Board, and also forward it to intervenors, on or before **Thursday, July 19, 2012.**
3. Board staff and intervenors shall file any comments on the draft Accounting Order with the Board, and also forward it to HONI, on or before **Monday, July 23, 2012.**
4. HONI shall file its responses to any comments on the draft Accounting Order with the Board, and also forward them to intervenors, on or before **Friday, July 27, 2012.**

Cost Awards

5. Parties eligible for costs shall submit their claims on or before **Friday, July 27, 2012.** The cost claim must be filed with the Board and one copy is to be served on HONI. The cost claims must conform to the Board's Practice Direction on Cost Awards.

6. Any objections to the cost claims must be filed with the Board and one copy must be served on the party against whose claim the objection is made, by **Friday, August 3, 2012**.
7. The party whose cost claim was objected to will have until **Tuesday, August 7, 2012** to respond. A copy of the response must be filed with the Board and one copy is to be served on HONI.
8. Filings to the Board must be made in the manner described in the Notice of Application and Written Hearing and Procedural Order No. 1, for this proceeding, dated April 18, 2012.
9. HONI shall pay the Board's costs upon receipt of the Board's invoice.

ISSUED at Toronto on July 12, 2012

ONTARIO ENERGY BOARD

Original Signed By

Kirsten Walli
Board Secretary